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BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

107
5-1-1

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 13

[Printed for the use of the Committee on Banking and Currency]

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COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

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GILBERT M. HITCHCOCK, Nebraska.
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JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
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COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

TUESDAY, SEPTEMBER, 23, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.20 o'clock a. m.

Present: Senators Hitchcock (acting chairman), Reed, Pomerene, Shafroth, Nelson, Bristow, McLean, and Weeks.

Senator HITCHCOCK. As there seems to be a quorum present, I think we had better proceed. Mr. Untermyer, will you resume your statement of yesterday?

Senator BRISTOW. I was not through with the interrogatories I had started to make, Mr. Chairman.

Senator SHAFROTH. But had we better not hear Mr. Untermyer through before asking him any questions?

Mr. UNTERMYER. May I make a statement before you ask your questions, Senator Bristow?

Senator BRISTOW. I had started out on a line of inquiry in regard to the things about which you testified yesterday; but I was diverted by other Senators breaking in with questions.

FURTHER STATEMENT OF SAMUEL UNTERMYER, ESQ., OF NEW YORK CITY.

Mr. UNTERMYER. I should like to make just this suggestion, if I may: I find in some of the morning papers a statement which rather misinterprets the intent of what I said, or wanted to say, yesterday with respect to the possible political influence of this reserve board upon the currency system of the country. I have been reported as saying that with my imagination I could conceive of a situation in which such political influence might be exerted. As I remember the occurrence, I was asked the question as to whether or not I could conceive of a set of conditions resulting in such unwholesome influence; and I said that with my imagination I could conceive of that, but that I did not believe it probable, or even possible; and I wanted to be understood as saying that I did not regard the danger from any such source as within the range of possibilities; and that I saw no objection but great advantages to the Nation through its Executive having the control of the system through the appointment of the board and of every member of it, and having no banking representation whatever upon the reserve board.

It seems to me that it is incongruous that there should be any banking representation on the Federal reserve board, because that board is dealing with the reserve banks that are controlled by the bankers. They come to that board with certain classes of paper, and they say to the Government, "We want you to issue currency for this paper." Now, surely they ought not to be permitted to sit on both sides of the table—to be represented on both sides of the bargain, if I may so term it.

Senator HITCHCOCK. You are referring now, Mr. Untermyer, to the question I asked you?

Mr. UNTERMYER. I think so, sir.

Senator HITCHCOCK. Well, I did not ask the question with a view to suggesting that bankers should have a seat or a representation upon the board.

Mr. UNTERMYER. I know you did not, Mr. Chairman.

Senator HITCHCOCK. But rather for the purpose of indicating that there ought to be some check by law upon the discretionary power of the members of the board.

Mr. UNTERMYER. Yes; I quite appreciate that. I know your question had no reference to the constitution of the board itself.

Senator HITCHCOCK. No.

Mr. UNTERMYER. But, answering the demand of the bankers for representation on the board, it seems to me that it is an unjustifiable demand.

Senator SHAFROTH. Mr. Untermyer, the rule, as I understand it, or the reason why bankers are not permitted to sit on the directorate of what is called the court of directors of the Bank of England, is because it would give to any banker actively in business the advantage of knowing when the discount should be raised or lowered; and inasmuch as the raising or lowering of the discount has a tendency to affect the market price of bonds and stocks, it would give an unfair advantage to that director connected with the bank which deals in such things, and therefore it would not be "compatible"—is the word they use—for a banker in active business to sit on the court of directors.

Mr. UNTERMYER. I think that the further reason has often been stated that they would be dealing with themselves. For instance, the Bank of England has no member on its board who is connected with any bank of deposit; that is, any bank that accepts deposits. Six out of its 17 or 21 directors—I forget the number—are what you may call "merchant bankers." They are merchants, primarily.

Senator SHAFROTH. They are not banks that receive deposits, though?

Mr. UNTERMYER. No; they are not banks of deposit, and they are, as I say, primarily merchant traders. You take, for instance, the Rothschilds, who are popularly supposed to be the great bankers of the world. Their business is, and always has been, primarily that of merchants. They drifted almost unconsciously into banking by reason of their activities as merchant traders. To-day they are the largest dealers in the world, or among the largest dealers, in copper, coffee, oil, rubber, and a number of other products. They buy and sell and deal in more of those products, on commission and otherwise, than almost any other people in the world.

And so with other men who are regarded by us as primarily bankers. They became bankers because, first, they bought the product and sold it, and then they took it on consignment and loaned on it; and they were dealing in merchandise, and that is the way these men drifted on to the board of the Bank of England. There are a number of such men, like Sir Cecil Hambro, and a member of the firm of Kleinwort, and a member of the firm of Schroeders, and two

or three others of that kind; but no member of any bank that accepts deposits is on the board.

Senator HITCHCOCK. Senator Bristow was asking you some questions yesterday, when he was interrupted. I suppose he wishes to resume.

Mr. UNTERMYER. Do you not think that I should state first, seriatim, the recommendations and objections I have with respect to this bill, and then resume the examination, Senator Bristow? I should prefer to go on with my statement now, if that is agreeable to you.

Senator BRISTOW. That would inject a lot of other matter into the discussion; and I probably would not get to this at all until late to-night.

Mr. UNTERMYER. Well, I want to leave the city to-day, Mr. Chairman, if I may. Even if I must come back, I must get away on the 3 o'clock train.

Senator BRISTOW. We were discussing yesterday, when some other things came up and interrupted us, and I am not complaining because the other members of the committee took up the questions as they did, because I think all the questions were pertinent, and I was glad to have Mr. Untermyer's views on the collateral matters. But we were discussing the question as to why the individual bank should not be permitted to go direct to a governmental agency and get the currency, instead of creating what seems to me to be this superfluous and unnecessary machinery to enable the bank to get it. And your objection to that, Mr. Untermyer, as I understood it, was that it would be impracticable of operation.

Mr. UNTERMYER. I had a number of objections, Senator Bristow, a few of which I had enumerated when I was interrupted.

Senator BRISTOW. Yes. Well, that was the objection that impressed me the most: there would be so many of them.

Mr. UNTERMYER. And then the inadequacy of security, as compared with under the other method.

Senator BRISTOW. And the inadequacy of security. Now, as to the inadequacy of security——

Senator REED (interposing). Senator Bristow, may I interrupt you?

Senator BRISTOW. Certainly.

Senator REED. I just came in. What is it you are discussing?

Senator BRISTOW. We are undertaking to take up the subject where we left off last night, as to the inadequacy of security which Mr. Untermyer suggests of the individual bank in going direct to the Government and getting the currency upon its own initiative, with its own assets, instead of having to get it in this roundabout way——

Senator REED. I have a table prepared on that, which will be read in a few minutes.

Senator BRISTOW. Yes; I have a statement prepared by a bank in Kansas, and your table can follow that.

Mr. UNTERMYER. Another suggestion which I made yesterday was that there would not be that same supervision possible. It would have to be done through a single local agent—that is, the examination of the paper, instead of having the concensus of opinion of a representative board.

Senator BRISTOW. Yes.

Mr. UNTERMYER. And I named three or four grounds of objection, but there are others.

Senator BRISTOW. Yes; I remember. But now, I want to take up, first, the matter of security. Senator Hitchcock suggested that the bank be permitted to issue 75 per cent of its capital stock in this currency. I would not have any objection personally to it issuing its full capital stock.

Now, let us see what security the National Bank of America, of Salina, Kans., would have. I happened to find in a paper last night this statement:

> Suppose it was permitted to issue $100,000 of currency on its assets. Now, what security would the Government have behind that $100,000? The bank has $100,000 capital stock, $50,000 surplus, and $33,000 undivided profits. Now, let us take its resources. I think that probably would be better. Its loans and discounts are $776,000——

Mr. UNTERMYER (interposing). Its resources—its net resources—are all summed up, it seems to me, in its capital, surplus, and undivided profits. Those are its resources.

Senator BRISTOW. Yes. But in counting the strength of the regional bank you took in its deposits; and if you count the deposits, or its loans and discounts, as a part of its assets and its security, then you must give the local bank the same credit.

Mr. UNTERMYER. That is quite true; we counted its deposits, because the Government has, upon the issue of this currency, a first lien upon all of these assets.

Senator BRISTOW. Then make it a first lien upon all these assets of the individual bank, just as you do in the case of the regional bank. Put them all on the same basis. And I think it can easily be demonstrated that to-day the local bank has more security, a larger percentage of security, behind the deposits than the regional bank.

Mr. UNTERMYER. I differ from you radically.

Senator BRISTOW. Well, you may differ from me radically, but I think it has; it is because you have not examined the facts. I think after we get through you can take in their position.

Mr. UNTERMYER. It seems to me you can never compare the responsibility of a single debtor with the responsibility of a whole section of debtors all combined, all of whose responsibility stands behind each item of credit.

Senator BRISTOW. Yes.

Mr. UNTERMYER. And distributed. It does not depend upon the operations of anyone concerned. I think, Senator Bristow, in all fairness, that it is pretty difficult to compare the two. One bank cashier may go off overnight with all the funds in the case of the individual bank.

Senator BRISTOW. But he can not carry off the assets.

Mr. UNTERMYER. I do not know about that.

Senator BRISTOW. He might carry off the cash in bank.

Mr. UNTERMYER. I have known them carry off the assets.

Senator BRISTOW. He might do the same thing for the regional bank, so far as that is concerned.

Mr. UNTERMYER. Hardly.

Senator REED. Senator Bristow, may I interject a question here?

Besides that, your whole question assumes limiting the currency to the capital of the bank. It seems to me that the issue of currency should not be limited to the capital of the bank, but to the character of the collateral that is offered by the bank. If you are going to limit the currency that is issued to the capital of the bank, you will simply substitute one inelastic system of currency for another. You have got a basis of that kind now in your bond issue.

Senator BRISTOW. Well, the bank does not have to take out any.

Mr. UNTERMYER. The bank does not have to take it out now, either. But you are not giving us an elastic currency, if you are going to make the capital of the bank the criterion of the currency to be issued, rather than the commercial paper which the bank presents.

Senator BRISTOW. I am giving you exactly the same currency that you are advocating, except that behind that currency I propose the individual bank instead of the regional bank.

Mr. UNTERMYER. No; on the contrary, under the present bill the amount of currency the bank may get is not limited, as I recall the bill, to the capital of the bank. I have not found any such limitation.

Senator BRISTOW. No; there is no such limitation.

Mr. UNTERMYER. No; so that there is no analogy between the cases at all.

Senator NELSON. This bill is an asset currency bill.

Mr. UNTERMYER. Yes.

Senator NELSON. Based upon the assets of the bank.

Mr. UNTERMYER. Certainly. And, therefore, I say that should be the basis of the issue and not the capital of the bank. The capital of the bank has nothing to do with it. It is the assets that constitute the basis for issuance of the currency. Therefore one bank with $100,000 of capital might have $1,000,000 of good, sound commercial paper, and would be better entitled to currency than some other bank with $1,000,000 of capital that only had $100,000 of good commercial paper.

Senator BRISTOW. Well, I am perfectly willing to waive that objection, so far as I am concerned. Senator Hitchcock made that suggestion, and I simply took it from his point of view. But I made the suggestion that I would prefer to take the assets of the bank, and when the bank wants to issue the currency, let it do so without having to ask it as a favor from a regional reserve bank that will be controlled by some personal interest, the same as any other bank is.

Mr. UNTERMYER. You would not give the central authority any discretion as to whether it should issue currency when the bank presents its assets?

Senator BRISTOW. Not any more than it has now with a national bank.

Mr. UNTERMYER. Well, do you not see that if you take your illustration and remove the limitation of capital, then this bank to which you have referred, having seven hundred thousand odd dollars of commercial paper, could go to the Government direct and ask for seven hundred thousand odd dollars of currency?

Senator BRISTOW. No.

Mr. UNTERMYER. Instead of having 8 for 1, then, it would have 1¾ for 1.

counted. If it is not, but is retired and this currency is substituted for it, as is proposed in this bill, that should be counted to the extent that they are retired.

Mr. UNTERMYER. Yes; but you will have to pay for it if it is retired; so in no event should it be counted.

Senator BRISTOW. Well, we will not count that.

United States bonds to secure deposits.

We will not count that either.

Other bonds to secure postal-savings deposits.

We will not count that, although it is an asset of the bank.

Bonds, securities, etc., $10,000.

That is an asset.

Mr. UNTERMYER. You would not make this a lien on the postal savings deposits, would you?

Senator BRISTOW. No.

Mr. UNTERMYER. Otherwise, you would not have any postal savings deposits.

Senator BRISTOW. No; I would not make it a lien on that. So I did not count that.

Due from national banks (not reserve agents)	$60,000
Due from State and private banks and bankers, trust companies, and savings banks	15,000
Due from approved reserve agents	148,000
Checks and other items	9,000
Exchanges for clearing house	3,600
Notes of other national banks	5,000
Specie	33,000
Legal tender notes	18,000

Now, it has redemption funds, but that we will not count.

Those are live assets, and the aggregate is $968,000, as I have summed it up rapidly.

Now, there are $968,000 of assets. The Government has $100,000 of the best paper in the bank, which it requires it to be——

Mr. UNTERMYER. Yes, sir.

Senator BRISTOW. Hypothecated; and behind that is $868,000 of the assets of the bank. And, in addition to that, the double liability of the stockholders, or $100,000 in addition, as a liability against the directors.

Do you not think that will be pretty good security?

Mr. UNTERMYER. I do not think it will compare with the security you would get under the other method. And besides each bank has a separate showing. Some are weak and some are strong, and you can not take one bank and make that an illustration of what would be the security behind each bank; you do not propose, as I understand it, to examine into the total assets and responsibility of each bank when it comes for currency; you only propose to examine into the collateral.

Senator BRISTOW. Certainly.

Mr. UNTERMYER. I should think you would simply examine the collateral and issue the note upon that. But if you are going into the operation of taking up the responsibility of each bank—its total responsibility—why then it seems to me that you are going into an almost endless task.

Besides that, your whole question assumes limiting the currency to the capital of the bank. It seems to me that the issue of currency should not be limited to the capital of the bank, but to the character of the collateral that is offered by the bank. If you are going to limit the currency that is issued to the capital of the bank, you will simply substitute one inelastic system of currency for another. You have got a basis of that kind now in your bond issue.

Senator BRISTOW. Well, the bank does not have to take out any.

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Senator BRISTOW. I am giving you exactly the same currency that you are advocating, except that behind that currency I propose the individual bank instead of the regional bank.

Mr. UNTERMYER. No; on the contrary, under the present bill the amount of currency the bank may get is not limited, as I recall the bill, to the capital of the bank. I have not found any such limitation.

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Senator BRISTOW. Well, I am perfectly willing to waive that objection, so far as I am concerned. Senator Hitchcock made that suggestion, and I simply took it from his point of view. But I made the suggestion that I would prefer to take the assets of the bank, and when the bank wants to issue the currency, let it do so without having to ask it as a favor from a regional reserve bank that will be controlled by some personal interest, the same as any other bank is.

Mr. UNTERMYER. You would not give the central authority any discretion as to whether it should issue currency when the bank presents its assets?

Senator BRISTOW. Not any more than it has now with a national bank.

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Senator BRISTOW. No.

Mr. UNTERMYER. Instead of having 8 for 1, then, it would have 1½ for 1.

Senator BRISTOW. You are assuming a thing I have not stated.

Mr. UNTERMYER. But if you remove the limitation of the amount you can borrow to the amount of capital, that is the result.

Senator BRISTOW. Well, but if you will permit me to correct your assumption——

Mr. UNTERMYER. Well, perhaps I speak too rapidly, Senator Bristow.

Senator BRISTOW. No; not at all. When the individual bank presented to the comptroller the securities which the law prescribed that it should have in order to obtain this currency, then it has the right to it; and let the law define what those securities shall be. No one will be foolish enough to say that it could get currency on its entire assets.

Mr. UNTERMYER. That is, all good commercial paper.

Senator BRISTOW. Well, commercial paper I do not think is entitled to any more consideration than a mortgage or a bond.

Mr. UNTERMYER. There we could never agree.

Senator BRISTOW. We very radically differ.

Mr. UNTERMYER. Yes; and could never agree on that.

Senator BRISTOW. Because I think this commercial-paper proposition is in the interests of a certain class of the people and it is establishing a currency system for the benefit of a few merchants instead of for the Nation.

Mr. UNTERMYER. It really establishes a currency for the Nation, if you will look at the experience of other countries.

Senator BRISTOW. Now, if the individual bank should present a certain security for this currency which the law defines, then it would meet your suggestion that the currency would be issued on the assets or security that was presented, would it not?

Mr. UNTERMYER. Yes; it would meet that objection, but it would not meet the objection that that is not sufficient security.

Senator BRISTOW. Not sufficient. But suppose it is what the law requires, then what would you say?

Mr. UNTERMYER. The law might require none at all. That would not alter the fact that there is no security behind the currency issue.

Senator BRISTOW. Yes.

Mr. UNTERMYER. And I would still think it was insufficient.

Senator BRISTOW. But you stated that you did not think we ought to take the reliability or the assets of the bank, or the financial strength of the bank, or anything connected with that; we ought simply to look at the security that was presented and issue the currency on that security.

Mr. UNTERMYER. Yes; the security that is presented, with all the backing of one of these regional banks.

Senator BRISTOW. Well, but you are willing to take the strength of the regional banks into consideration but not the strength of an individual bank.

Mr. UNTERMYER. No; not the strength of the regional bank alone, but the strength of the regional bank together with the strength of all the constituent members of that bank. That is what you get when you issue security to a regional bank. You get the uncalled capital of all those banks. You get the law of averages. You get a variety of factors that do not begin to come into existence when you are dealing with a single bank.

Senator BRISTOW. You get no more factors that are not in existence than when you deal with the individual bank, except that you are dealing with a larger amount, or a number of those factors—a greater aggregate of those factors—and they are standing for a greater aggregate of debts, are they not? The individual bank might take out $50,000 in currency; the regional bank might take out $5,000,000 or $10,000,000 or $20,000,000.

Mr. UNTERMYER. But you are getting all the reserves: you are getting no reserves when you take the case of the individual bank.

Senator REED. Why not?

Mr. UNTERMYER. You are getting the reserves that belong to that one bank.

Senator REED. Yes.

Mr. UNTERMYER. But I am talking about the general average.

Senator BRISTOW. You are simply getting the aggregate of the reserves, then, behind the currency of all the banks instead of the reserves of one bank behind its individual currency.

Mr. UNTERMYER. And you are getting the uncalled liability.

Senator BRISTOW. The uncalled liability is 10 per cent, and behind the individual bank you have got all its liability.

Mr. UNTERMYER. So you have in these cases, because you have got the liability of that individual bank behind it. In other words, when the Government discounts paper for a regional reserve bank it has the indorsement of the member banks on that paper, and its entire uncalled liability.

Senator BRISTOW. Yes?

Mr. UNTERMYER. Apart from the 10 per cent uncalled liability of all the members.

Senator BRISTOW. Yes. There is this element which I recognize, that you have got the obligation of all of these banks combined. They are on each other's paper to sustain a volume of, we will say, $20,000,000 or $25,000,000 currency—or perhaps $10,000,000—whatever it might be, while in the individual bank you have got the same assets, the same quality of security for a limited amount of liability?

Mr. UNTERMYER. No; you have a very much inferior quality of security; you have at least 2,000 times the security when you discount for a regional bank that you have got if you discount for a single bank.

Senator REED. Two thousand times?

Mr. UNTERMYER. Yes; assuming that there are 2,000 members.

Senator BRISTOW. How do you get that?

Mr. UNTERMYER. Assuming that there are 12 regional banks, and that they are equally distributed, when the 25,000 banks of the country are distributed among the 12 regional banks it will give about 2,000 member banks for each regional bank.

Senator REED. You surely have omitted in that calculation one of the elements.

Mr. UNTERMYER. What is that, sir?

Senator REED. When a regional bank, composed of 600 member banks, is created.

Mr. UNTERMYER. I am assuming that all the banks come in.

Senator REED. I am talking about one region, now.

Mr. UNTERMYER. So am I.

Senator REED. And that will take in about 600 national banks.

Mr. UNTERMYER. I am assuming that the State institutions come in.

Senator REED. The plan will certainly work, for calculation purposes, with the 600 national banks. Now, you might assume that all the other banks came in, but that is a violent assumption.

Mr. UNTERMYER. I do not agree with you, and I do not think the thing will succeed unless substantially all the banks join, as I think they will be forced to do in self-defense.

Senator REED. And we might assume on the other hand that all the banks will stay out, which would be another violent assumption. I am taking the national banks (and they will all come in on an equivalent basis), and we will have this situation; and I think for the purpose of the illustration it does not make any difference how many come in. The regional bank is an institution existing by itself. The member banks are not joint partners and are not liable under the laws of partnership. They are stockholders, and their liability, therefore, is limited to the amount they have contributed to this corporation in the way of capital stock paid in.

Senator NELSON. And to the 10 per cent call.

Senator REED. And, second, to the 10 per cent call. Therefore, the primary liability or the primary security that is back of, we will say, $5,000,000 issued to the central bank, is the assets of the central bank which amount, now, we will say, to $5,000,000 and the right to call $5,000,000 more. Now, that is the solitary and only thing that is back of that except individual notes indorsed by individual banks.

Mr. UNTERMYER. Yes; with all the assets of that bank.

Senator REED. Now the individual note, indorsed by the individual bank, does not have—in the first place, those notes need not have come in from every bank; they might have been deposited by only a few of these banks. In the second place, that note does not have back of it, by virtue of that indorsement, all of the assets of the individual bank. The individual bank has 1,000 other liabilities and the indorsement is utterly worthless if the bank is utterly worthless, and it is worth 25 per cent if the bank's assets will pay out 25 per cent upon all of its liabilities, and it is worth 50 per cent if the bank's assets will pay out 50 per cent on its liabilities. So that you do not have back of this money, under this scheme, the aggregate capital of all the member banks.

Senator NELSON. In other words, they are not jointly and severally liable as indorsers.

Senator REED. That is exactly it.

Mr. UNTERMYER. I have not said that they were.

Senator REED. Oh, you have said 2,000 times the amount, and you can not get there.

Mr. UNTERMYER. Yes; I will get there. In the first place, when I said 2,000 times the security, I figured upon every bank being in the system—that is, in the 12 regional banks—and the regional banks would then have 2,000 member banks each.

Mr. BRISTOW. Now, Mr. Untermyer, may I interrupt you?

Mr. UNTERMYER. May I not answer Senator Reed? I think I am entitled to do so. I do not say the Government would be the sole creditor of the individual bank. I answered Senator Bristow's suggestion that the stock liability of that bank—that is, its liability for an amount equal to the par value of its capital—would be an asset available to the Government just as it would be an asset avail-

able to the Government in the case of discounts made directly for that bank, and so it would be. In other words, the Government would have behind this obligation all the assets of the reserve bank, and it would also be a creditor of the individual bank and would be entitled to a proportionate share of whatever came out of this stock liability. Now, when I say that the responsibility is 2,000 times that of the single bank, what I mean is that when the reserve bank is discounting paper for 2,000 banks if one bank goes by the board its chance of loss would be one two-thousandths of what that would be if it had only that one bank for which it was discounting. I think I am entirely right in that when you speak of the doctrine of averages.

Senator REED. Isn't this just where you come out, Mr. Untermyer? The First National Bank of Pittsburgh, for the purpose of this illustration, having a capital stock of $1,000,000, takes $1,000,000 of securities to the regional bank and indorses that $1,000,000 of paper. Now you have $1,000,000 of individual notes indorsed by a bank with $1,000,000 of capital, and that security in that shape is taken to the regional bank. Thereupon the regional bank indorses it. You have back of that particular note issue the $5,000,000 of capital of the regional bank and the $5,000,000 that can be called as against the regional bank.

Mr. UNTERMYER. And the deposits of the regional bank.

Senator REED. And that is taken to the Federal Government and the money issued.

Mr. UNTERMYER. You have omitted, of course, the reserves of the bank, if that is an obligation of the regional bank.

Senator REED. Of 33 per cent.

Mr. UNTERMYER. No; I mean of the 100 per cent, the entire reserves that are on deposit, the deposits in the regional banks, of all the banks——

Senator REED. Are included.

Mr. UNTERMYER. Are behind that loan.

Senator REED. Very well; you have this, and that does make an excellent security when we assume that all the other banks stand up, and that all that security lies there intact and unimpaired back of that $1,000,000.

Mr. UNTERMYER. It is a good security if half of them fall down.

Senator REED. Yes; but in the last analysis, what you have back of that money is the individual's note, the indorsement of the individual bank, and the assets of the regional bank. You do not have the assets of all of the banks, do you?

Mr. UNTERMYER. No; you do not have the assets of all of the banks.

Senator REED. You do not have the assets of all of the banks?

Mr. UNTERMYER. Except that part of them which is on deposit with the regional bank.

Senator REED. I understand we have already used that up. Now, we will take the case of the individual bank—this same individual bank. Well, before I do that——

Mr. UNTERMYER. Senator Reed, are you not losing sight, if I may suggest, of the all-important point, the doctrine of averages, nor of the fact that the reserves of the country can not be mobilized under your plan nor taken away from New York nor made useful to the commerce of the country?

Senator REED. Yes; but I am going now to suggest a counter danger. Suppose that this regional bank not only gets money issued in this way that I have suggested for the First National Bank of Pittsburgh, but that it gets approximately the same amount of money for all of the banks of that district. Of course in that event the assets of each of these banks would have to be added to the security. And just in proportion as you issue that money to the member banks the value of the security is lessened, so far as the regional bank's assets are concerned.

Mr. UNTERMYER. There is not any doubt of that.

Senator REED (continuing). Because the regional bank stock security becomes proportionately less and the regional bank's assets being in fact the assets of the member banks, and nothing more, it is of course finally reduced to a proposition, under this illustration, that you have got back of all of this money all the assets of all of the individual banks, and nothing more, because the assets of the individual banks swallow up the reserve bank. Now, suppose that there come some great crash, whereby the banks are closed, as they were in 1907, and this money—gold is demanded for it. You have a system, now, so tied together that if that regional bank goes down and can not redeem this money your currency has gone to pieces, haven't you?

Mr. UNTERMYER. Yes; certainly, if all the reserve banks go down. You could not have any system that would not have an element of that kind in it. There is no known system.

Senator REED. Suppose you take this as a separate transaction. Mind you, in this first illustration we have been using there is absolutely no limit upon the amount of money which may be issued, except the promissory notes—the limit fixed to the promissory notes. You can keep on issuing money as long as there are promissory notes to be deposited, if it is 5 million, 10 million, 1 billon, or 10 billion.

Mr. UNTERMYER. You mean in the regional-bank system?

Senator REED. You can in the regional-bank system.

Mr. UNTERMYER. I do not agree with you.

Senator REED. The Government, under this law, as long as there is what is called commercial paper, no matter if it goes to $10,000,-000,000, can continue to issue money.

Mr. UNTERMYER. Yes; but it has a discretion.

Senator REED. But you can pyramid your credits. That is to say, now——

Mr. UNTERMYER. You have got to have your gold reserve, have you not?

Senator REED. Yes. That is to say, you can pyramid your credits in this way: You have $1,000,000 of promissory notes and you put them up and get $1,000,000 of currency. You thereupon set aside 33 per cent as a gold reserve, loan out $666,000 and get more promissory notes. You bring those notes back to the bank and come down to the Government and you get $666,000 of paper money. You take out one-third of that, $222,000, and that leaves you $444,000. You loan that out again and you get some more promissory notes, and you can repeat that operation. Have you figured out how much money can actually be issued until the gold reserve is exhausted?

Mr. UNTERMYER. I think there are a number of big holes in that argument, Senator, if I may suggest. One of them I can puncture now by reminding you that you have got to have paper all the time

that is maturing within 90 days, so that new paper is coming in and old notes are being paid off.

Senator REED. And just as it comes in now, with an enterprising banker.

Mr. UNTERMYER. In the next place, you are ignoring the fact that there is somebody in control of this system. There are people who are supposed to see to that.

Senator REED. Yes; I know.

Mr. UNTERMYER. You can take any proposition within the range of finance, business, or science, and deal with it in that way and bring it down to a logical absurdity.

Senator REED. We are trying to build up a system here that is safe.

Mr. UNTERMYER. Safe if properly administered; but no system is safe if not properly administered.

Senator REED. We are trying to build a system that, if made unsafe, the law must be absolutely breached. That ought to be the system we are building.

Mr. UNTERMYER. A single bank, you know, could do the same thing you are talking about.

Senator REED. Wait a moment, now. I differ from you. I am talking about possibilities now and what can be legally done under this law. You can keep on with this system of piling credit upon credit until the 33 per cent gold reserve has ultimately eaten up your power.

Mr. UNTERMYER. I differ from you. I do not think you can do anything of the kind.

Senator REED. Why can not it be done within the law?

Mr. UNTERMYER. I will tell you why. Because, in the first place, you must have genuine commercial paper on which to base your currency. If you have genuine commercial paper to give the Government all the time, that means that the country needs that currency for legitimate purposes. In the second place, the term of the paper is so brief that you can not accumulate any such amount of it in the succession of transactions you have suggested. That is a fictitious illustration that could not occur in the course of events; and, in the third place, all checks of Government control that would render such a situation impossible are ignored. You have all the bars down. You are assuming everybody is away; everything is open, that all they have got to do there is to put something in the slot and automatically pull currency out.

Senator REED. Now, you are too good a lawyer to mistake my illustration. In the first place, I am dealing with the possibilities of the law.

Mr. UNTERMYER. I know you are.

Senator REED. I am leaving out this wise, prudent, supervision which we hope and pray for, but which may or may not always exist.

Mr. UNTERMYER. Every country would be bankrupt if we acted on the assumption that discretion did not exist in the direction of public affairs.

Senator REED. The only limit that is put in this bill on the amount of money that can be issued is the 33⅓ per cent gold reserve which must be set aside.

Mr. UNTERMYER. And the character of the paper.

Senator REED. And the character of the paper.

Mr. UNTERMYER. That is the essential thing.

Senator REED. Now, you think we have finally reached a time when that class of paper, which is here denominated commercial paper, would no longer exist.

Mr. UNTERMYER. I am not speaking of the paper here denominated, because the paper here denominated, Senator Reed, is too loosely denominated.

Senator REED. Very well.

Mr. UNTERMYER. I am speaking of the paper that you have denominated.

Senator REED. The paper you would denominate as prime commercial paper. Now, you can not tell us the amount of that prime commercial paper that is in circulation now, or that has been in circulation at any period of the country's history, can you?

Mr. UNTERMYER. No; and I do not know that there are——

Senator REED. There is not a human being on this earth that can approximate it, is there?

Mr. UNTERMYER. I do not think so.

Senator REED. Then we are proposing, under this bill, to issue a currency the limit to which, under the law, is a 33⅓ per cent gold reserve, which, I grant you, is a limit to that extent on the amount of commercial paper; and nobody knows, and nobody can make an approximate estimate, of the amount of that commercial paper.

Mr. UNTERMYER. But you have got a check on the amount that can be issued in the fact that the regional reserve bank is not going to allow inflation in its district. If it chooses to do so, the Government is not going to allow undue inflation. It has a right to stop and say, "We won't do any more."

Senator REED. That comes back again not to what the bill requires, but what the managers may do.

Mr. UNTERMYER. There is no system that can be devised on any other basis.

Senator REED. I think I have one.

Mr. UNTERMYER. Well, the world will acclaim you.

Senator REED. No they won't acclaim me.

Mr. UNTERMYER. Oh, yes; all nations will acclaim you.

Senator REED. It is not anything marvelous now; it has been already suggested. I am coming now to the suggestion of Senator Hitchcock.

A bank can not organize, in the first place, under the law without putting up its capital stock in cash against it.

Mr. UNTERMYER. No; it can not.

Senator REED. And, as long as it does put up its capital stock in good hard coin of the realm, that is solid, isn't it?

Mr. UNTERMYER. Until it is punctured.

Senator REED. Until it is punctured, stolen, or carried away.

Mr. UNTERMYER. Or legitimately lost.

Senator REED. You need not have injected that into it, because that is true of your regional bank. That is true of the Federal Treasury; that is true under any banking laws and that is true everywhere; and where it is lost in a bank, if we have any kind of Government supervision, it is going to be found out it is lost, and then we cease doing business with that concern.

So let us come back and get down to the question of the hard dollars that are paid in, and let us say it is $1,000,000 of gold coin, the paper that is as good as gold, issued by the Government. We have that.

Mr. UNTERMYER. You mean that a bank starts with a million of capital.

Senator REED. Yes. It is not possible, now, to conceive of so many banks being organized and money paid in that we run away there, because there is a limit to the money that is paid into it—a natural limit. We have a total liability, then, of the stockholders of $2,000,000, $1,000,000 of which is absolutely in the Treasury and $1,000,000 of which is in the liability of these men. Now, a bank thus organized wants, under Senator Hitchcock's suggestion, some money. It goes down to the Federal Treasury and shows it has this unimpaired capital, and it gets $750,000 of paper currency issued to it—no; $500,000 of paper currency issued to it. And what was your gold reserve?

Senator HITCHCOCK. I did not discuss the question of the gold reserve.

Senator REED. I am going to assume that it gets $500,000 of capital currency issued to it and has a 50 per cent gold reserve.

Mr. UNTERMYER. You mean in its vaults.

Senator REED. Yes. It is required to keep back, out of the money it gets, a gold reserve equal to 50 per cent.

Mr. UNTERMYER. But it offers no security for this money.

Senator REED. Just wait a moment. In order to get this money it is limited to three-quarters of its capital stock. It has got to do two things. It has got to create a gold reserve of 50 per cent and it has got to put up notes of its customers for the other 50 per cent. Now, I am talking about the question of inflation, of the creating of a system that won't run away, and that bad management, less stealing, will not permit to run away. Your note issue in that event is absolutely limited to 50 per cent of the capital of the national banks.

Mr. UNTERMYER. It is an inelastic currency; it is worse than the present currency.

Senator REED. Let us see if it is inelastic. Let us be fair.

Mr. UNTERMYER. That is what I assume, that you want to be fair——

Senator REED. Certainly.

Mr. UNTERMYER. And you must assume I want to be fair.

Senator REED. Your currency you are discussing under this bill is inelastic when it reaches a point where the gold reserve and the lack of commercial paper has put the brakes on. It ceases at that point to be elastic.

Mr. UNTERMYER. No; it has supplied the commercial needs. In other words, it is measured by the amount of genuine commercial paper that is outstanding instead of being measured by the capital of the bank.

Senator REED. Let us see if the other is not equally elastic, though working upon a different principle. There is money enough in the country to-day to fairly transact the business of the country—to meet the demands of business. You are a banker and you want more

money. Why? Because your customers need it. You go down the Federal Treasury to get it, and when the Federal Treasury iss it to you they charge you interest, and you will not take the mo out unless you can use it and make more interest than the Fed Government is charging you. If you keep the money longer tha certain length of time, the interest rate is raised. Now you have to the place where you can get money when it is necessary, hence can extend it. You can stretch the rubber band, as somebody the other day. You then, by virtue of these interest charges, going to curtail it; you are bound to bring it back within a g time; and you have a currency that will expand every time the b ers find they need the money for legitimate business; and you h currency they are compelled to contract whenever the interest get high enough. And is not that elastic?

Mr. UNTERMYER. No.

Senator REED. Then you and I differ in our conclusions.

Senator NELSON. That is the Vreeland bill.

Senator REED. Certainly; it has the principle of the Vreelan in it.

Mr. UNTERMYER. Except it is more liberal in the character curity than the Vreeland bill. The objections are these, if I ma In the first place, the automatic increase of the interest rate n such a great hardship upon business that it does not furnish ela at all. Business may need money—legitimately need it—legiti expanding business—and if you are going to put a prohibitio it by a purely ascending rate of interest that is automatic a times you are not going to supply the needs of business at all. is No. 1.

Senator REED. But, Mr. Untermyer——

Mr. UNTERMYER. Won't you let me finish?

Senator REED. I will; but I think we might get along bette

Mr. UNTERMYER. I think you might let me finish one ans cause I have not been able to do so thus far.

Senator REED. I want to get your opinion upon it. You a not trying to fence.

Mr. UNTERMYER. Certainly not.

Senator REED. Suppose we raise that interest every mo months, or three months, a certain amount and we put in thi tionary element to leave it to some central bank to raise the as that board thought it necessary. That would be leaving it Federal board to raise the interest as that board though necessary.

Mr. UNTERMYER. That you are doing now under this bill

Senator REED. Suppose you added that.

Mr. UNTERMYER. Let us just take your illustration and s dangerous sort of security that would be. It is secured real the extent of 50 per cent. The rest of the other security is i as I understand it, of commercial paper and the stock liabil bank. Is not that right?

Senator REED. I do not agree with you on that.

Mr. UNTERMYER. Is not that your illustration. As I u it, you say you would take commercial paper for the curre would be issued at par, and 50 per cent of that would have

a gold reserve and the other 50 per cent would be available for general use——

Senator REED. Yes.

Mr. UNTERMYER (continuing). As against that $100,000 of currency we will say you would issue and you would present $100,000 of notes, and $50,000 would have to go into a gold reserve and the other $50,000 would——

Senator REED. Now, we have $50,000 of liability, because the gold reserve takes care of the other $50,000.

Mr. UNTERMYER. Yes.

Senator REED. What is back of that $50,000?

Mr. UNTERMYER. This $100,000 of notes and the stock liability of the bank.

Senator REED. Yes; and the bank's capital.

Mr. UNTERMYER. And the bank's assets.

Senator REED. Five to one, is it not?

Mr. UNTERMYER. You assume that you would borrow $1,000,000, or $750,000?

Senator REED. I took $1,000,000 capital. You just went to the $100,000 illustration, and I went there with you.

Mr. UNTERMYER. Now, then, so far as concerns the stock liability the uncalled liability of individuals on stock, I think, that the experience of the Comptroller of the Currency demonstrates that that is not a very collectable asset were you to ask for it.

Senator REED. That is true of the regional bank system.

Mr. UNTERMYER. That is true of the regional bank system, because your 10 per cent individual capital is payable by the bank.

Senator REED. That is, however, of no value for the banking business.

Mr. UNTERMYER. It is only to pay 10 per cent, and it has 100 per cent to collect; so that it is 10 for 1 which it is able to collect.

Senator REED. Our lien is not prior to the other liens on that.

Mr. UNTERMYER. Yes; you have a prior lien on everything of the bank, as I understand it—for the 10 per cent; not for the general stock liability—so that the uncalled stock liability of individuals in a failed bank experience has not shown to be a very valuable or tangible asset.

Now, all you have left behind this currency are the notes—the assets of that one bank and the promissory notes or the bills that have been put behind it. You would not have anything like the security that is offered by this bill.

Senator REED. On the contrary, I think it is better; and I think it is better for this reason—I have got some figures on it——

Mr. UNTERMYER. Of course, you are assuming that the Government is a preferred creditor in every event.

Senator REED. I mean that the Government is a preferred creditor, and if I were drawing this bill I would make it a preferred creditor not only for the stock bank, not only as far as the currency is concerned, not only for the double liability, but for every asset the bank has.

Mr. UNTERMYER. I think that is wise.

Senator REED. If you do that and you have any kind of an inspection at all I insist that, barring plain, cold larceny, you are bound to

have ample security; and for this reason: Here is a bank with $
000,000 capital. It is to be inspected. If that inspection shows t
the bank has not got deposits at least equal to its stock—in fact, f
times the amount of its stock—then any bank examiner in the wo
would know that that institution was rotten to the core. He wo
not need to know any more.

Mr. UNTERMYER. But when trouble comes I tell you those depo
disappear pretty rapidly.

Senator REED. They may.

Mr. UNTERMYER. You can not count on those deposits. On
the reasons why I say it is not comparable to the security off
by this bill is because of the law of averages, because of the
that when you have 2,000 banks in one regional reserve bank a
fails, or a dozen or 20 fail, it is not as though the Government h
separate loan with each bank, where, if one bank fails it can not m
it up out of the others. There is not any resort to the law of
ages there, which would tend to the safety of the issue.

Senator REED. I understand, Mr. Untermyer, perfectly, a
frankly concede that just to the extent that the regional ban
capital and its indorsement of this paper it puts up with the Go
ment adds to the value of the paper.

Mr. UNTERMYER. But, apart from the question, Senator Re
the capital, still more important and a still greater security t
than the capital or the assets of the regional bank is the fact t
has, we will say, 2,000 banks, and they are not all going to
Whereas if the Government is dealing with each bank separa
is dealing on the assets of each bank, while if it is dealing wi
institution that has all the assets of 2,000 banks it is dealing
law of averages, which is the only safe law upon which to con
financial transaction of that kind. There can be no question
that.

Senator REED. Let us understand this: You do not mean
that if a regional bank gets a billion dollars of money issued to
all of the assets of the 2,000 member banks is liable for that
dollars?

Mr. UNTERMYER. No; not at all. I never have suggested
thing. What I do mean is that if it gets a billion dollars
receivable or bills of exchange, that the chances of loss amon
hundreds of thousands of bills of exchange are mimimized
the bills of exchange of one individual bank in one city or one
affected by one catastrophe.

Senator REED. But now, following that out, we will assume
member bank, in dealing with the Federal Government, puts
the Federal Government a lot of bad paper and the Governm
its money. It might do the same thing to the regional banl
it not?

Mr. UNTERMYER. The loss would not be appreciable.

Senator REED. I am talking about what it can do to the
bank. It might do the same thing to the regional bank it do
Government, and the loss, instead of falling directly upon
ernment, would fall upon the regional bank.

Mr. UNTERMYER. Yes.

Senator REED. You say the regional bank can stand that because it has so many banks and is dealing with so many banks that the loss would be distributed.

Mr. UNTERMYER. It would be infinitesimal.

Senator REED. If it is infinitesimal to a regional bank with 2,000 member banks, it would be equally infinitesimal to the Federal Government dealing with not 2,000 banks but with 25,000 banks.

Mr. UNTERMYER. On the contrary, in the one instance the Federal bank does not sustain any loss; in the other instance, the Federal bank does. The regional bank has to take that loss.

Senator REED. Do you think the regional bank can stand that loss?

Mr. UNTERMYER. Very readily.

Senator REED. If the regional bank, that has no assets except that which it gets from the bank, can stand that loss and can afford to stand that loss because it is distributed in the way you have spoken of, why can not the Federal Government.

Mr. UNTERMYER. In the first place, the regional bank is making it up; it is earning money against that loss. In the second place, and still more important, the currency of the Government must have such confidence that there must not be the possibility of any loss occurring in any security for which the currency is issued. As soon as there is a possibility of such a thing the currency loses value and stability. But still more important, and what is in itself fatal to your plan, without regard to the many other considerations that in my judgment renders it impossible, is the fact that you provide no means of mobilizing the reserves. Are they to be used as now, by being sent to New York for stock speculation, instead of remaining, as they do under the bill, where they belong and for the use of legitimate business there?

Senator REED. Let us go back to the question of how the regional bank can sustain the loss. You say because it is making money. It has an income. Now, if the Federal Government issued its money direct and charged an interest for it, it would have an income, would it not?

Mr. UNTERMYER. Yes.

Senator REED. And if we take the loss. If we take the law of averages, of bank failures, total failures of national banks, or partial failures, they do not amount in the aggregate—I am taking the average over the years—to more than about——

Senator BRISTOW. One-twentieth of 1 per cent for the last 50 years.

Senator REED. One-twentieth of 1 per cent for the last 50 years of deposits, which, of course, could not be exactly applied to the currency which would be issued, but it shows the amount and I believe, you said, that 2 per cent collected upon the notes would make up, and more than make up this loss.

Mr. UNTERMYER. I can imagine it would more than make it up; but there is another consideration that I think you have left out of sight, and that is that the Government should not have imposed upon it the task of passing upon the character of commercial paper which would be presented to it. That is another question.

Senator REED. Let us stick to the question we are now considering.

Mr. UNTERMYER. There are dozens of consideration that occur to one against, the practicability of such a plan.

Senator REED. Let us thrash them out one at a time. Let us st to the question of whether the Government can afford to do it. I per cent would create a fund that would take care of the failures s the Government should loan its money out, at say, 4 per cent, t we would get a fund that would take care of the failures two or th times over and with the great law of averages, namely, that wh you have 25,000 banks, the chances of failure are distributed the income comes in from all the 25,000 banks to meet the fai of the one. I want to know now, why the Government of the Un States can not do that safely so far as this one consideratio concerned.

Mr. UNTERMYER. So far as the one consideration is concerne can. If you want to limit it to that, it can be done. It would to the grossest inflation.

Senator REED. Why, my dear sir, you are proposing a system that has no limit upon it except the gold reserve which you mal per cent. In this case I have made the gold reserve 50 per Your other limitation is simply the amount of commercial p there may be in the country.

Mr. UNTERMYER. And the discretion of men vested with the ac istration of the law.

Senator REED. Very well. I have limited this to three-quart the bank capital and the discretion of these wise and prudent who are never going to make a mistake in my case any more tha will in yours, but in both cases likely.

Mr. UNTERMYER. No; in the case of the present bill, Senator these men have not had imposed upon them the discretion of p upon this paper. That discretion is exercised where the pa passed upon.

Senator REED. You are going now to the question of passing paper. I am talking about the amount of currency and I insi you have already said, Mr. Untermyer, that the difficulty wi system I am now discussing is that it is inflexible because its are absolutely fixed by the bank capital, and yet how can you one and the same breath logically that it is inflexible, becau bank capital absolutely limits, and in the next breath say that i the door for every kind of inflation.

Mr. UNTERMYER. That is only one of many objections to it.

Senator REED. I am speaking about that one; I want to com next one now.

Mr. UNTERMYER. Senator Reed, it is inflexible from the p view that it is limited by the capital of the bank, and it is l inflation from the point of view that you are imposing upon t ernment a duty of passing upon this commercial paper, for v has not the machinery and is unable to supervise. It is not ernmental function.

Senator REED. Very well. Now, I am coming to the que passing on commercial paper. In the last analysis whether a the agent of a bank or an agent of the Federal Governmen simply a human being, with body, parts, and passions, and things have to be worked out through human agencies. That I guess we will agree on that without any further talk.

Mr. UNTERMYER. That is certainly true.

Senator REED. A number of very fine gentlemen, nine of them, are put in as directors of a regional bank; three of them are practical bankers, picked by the banks, the other six are something else. The minority of this board are practical bankers.

Mr. UNTERMYER. I think that a good merchant is as good a banker as any banker. A merchant extends credit of merchandise just as a banker extends the credits of money, and many merchants have finances that are much larger than that of all the banks with which they deal.

Senator REED. That is true.

Mr. UNTERMYER. All this legerdemain about banking and expert banking and all that sort of thing seems to me much overdrawn.

Senator REED. You think a man with good common sense and some business experience can be trusted almost as well as a banker.

Mr. UNTERMYER. I think fully as well as a banker.

Senator REED. You think fully as well.

Mr. UNTERMYER. I do not say that he understands the science of finance necessarily. Of course, banking and finance are somewhat different.

Senator REED. Well, I understand now your reason for differentiating, because a moment ago, Mr. Untermyer, when I was trying to say that this board would only have a minority of practical bankers upon it you at once brought forward the idea that the other men on it might be even wiser than the bankers.

Mr. UNTERMYER. I do not believe I made any such suggestion, Senator Reed. Perhaps you thought you were going to ask me some question of that kind.

Senator REED. No; when you read the record you will find that I am pretty nearly correct. Now, this macinery does have in it an element of great merit, which I frankly admit, namely, that practically the three bankers who are on that board must realize that if they take bad paper from member banks they are liable to injure not only the bank of which they are directors but they are at the same time financially interested in it, and hence I freely grant you they will use all reasonable precaution. I want to concede to this bill wherever there is a virtue, I want to concede that virtue.

Mr. UNTERMYER. I think the virtue lies largely in the other members of the board.

Senator REED. You do?

Mr. UNTERMYER. Yes.

Senator REED. You think they are better than the bankers?

Mr. UNTERMYER. Well, I think they have less interest, because they have no paper to discount and they are supposed to represent the public interest and the commercial and industrial interests of the country.

Senator REED. And you think that, respresenting the commercial and industrial interests of the country, they are a little more to be trusted to manage this system than the bankers, who have financial interest?

Mr. UNTERMYER. I do not say that they are more to be trusted in any such sense as might be implied. I have no doubt that everybody who acts on that board will be entitled to be trusted. What I mean is, that while the bankers represent their own interests, though their financial holdings are comparatively small in this institution,

they are also people who will borrow money, while the other rectors will have an entirely disinterested public point of view.

Senator REED. And you think therefore they are a little s because of that fact.

Mr. UNTERMYER. Certainly; fully as safe.

Senator REED. Very well. Now we have got to the point, a want to nail this point down, because I am going to use it point to reason from. Good men selected outside of the ban are a little bit safer to manage a system of this kind than the ban themselves, and now I proceed——

Mr. UNTERMYER. I said fully as safe.

Senator REED. All right. I will proceed from that point. Federal reserve bank is located now, for the purpose of my illu tion, in the city of St. Louis, in my State, and its territory emb all of Misouri, Kansas, Oklahoma, and Nebraska, and that is the territory it would embrace. That is a territory in which yo take all of Germany, all of France, and the Island of Englanc drop them down and have a little bit of space left on the side, geography has not become clouded. There will be within that tory about 600 national banks. They will be, many of them, 30 400 miles from St. Louis. How is that board of directors o regional bank to keep in touch and have a knowledge of the bus the liability, and the safety of these various banks? It must some machinery. What would be the machinery?

Mr. UNTERMYER. It ought very largely, in a general way, to about its customers. That is one of the advantages of 12 r banks over 4 or 5.

Senator REED. I know it ought to know; but I am asking yo it will know and what will be the method?

Mr. UNTERMYER. It will have statements from these banks time. There will be men among these nine men who will be s from the different regions. They will know the banks in the region pretty well.

Senator REED. Do you think any one man will know, of h personal knowledge?

Mr. UNTERMYER. All of them should know. Among the ni they will know. It is a less diversified knowledge than amo great banks of to-day.

Senator NELSON. You mean more diversified?

Mr. UNTERMYER. No; it is a less diversified knowledge than be required of the heads of some of the banks of to-day th thousands of depositors scattered all over the country. Some great banks have a vast number of depositors. It will have positors and, I think, it will have better occasion to know in a way about the conditions in that section.

Senator REED. But you do think that those nine men who erally scattered in their selection over this vast empire of I have described—for it is an empire, and that part that Bristow and I live in, and I will have to include Nebraska, mighty good empire.

Mr. UNTERMYER. Haven't you included a pretty large t for your regional bank?

Senator REED. No, sir; I think that is just about wha come in.

Mr. UNTERMYER. That would be more than one-twelfth of the territory of the United States, would it not?

Senator REED. We are in area, but I do not think we are when you come to the question of the number of banks.

But you think that those nine men could keep track of the financial conditions of these various member banks reasonably well, so that they would be able to—if they could not pass upon the particular paper brought to them by the banks—that they would at least know the bank's standing, the kind of management it had, whether it was a safe, prudent management, and whether its statement from time to time made showed that it was in a healthy condition.

Mr. UNTERMYER. Within a very few years, with the aid of the bank examinations that are required under the act, that will be true.

Senator REED. Yes. Now, I agree that they can keep a pretty close check. Do you know of any reason why if this other system that we have been discussing was adopted the Government of the United States could not form a board of nine men and through that board have exactly the same kind of intimate knowledge which would be possessed by these nine men who are directors of the regional banks?

Mr. UNTERMYER. No reason why they could not set up the same system in some other form if they choose.

Senator REED. A system which embraces the employment or requires the employment of 150 or 200 supervisors or directors will cost the banks of the country a little more.

Mr. UNTERMYER. Yes.

Senator REED. And that expense would ultimately fall on the man who does business with the bank, will it not?

Mr. UNTERMYER. Yes; any system is bound to do that.

Senator REED. Certainly; it has to go there. If the Government was able to establish the same system, it would pay the same number of men and it would not have to pay any more for that, would it?

Mr. UNTERMYER. Yes; there is no doubt of that; of course it would not be anything like as responsible a system. It would not be a local government of finance.

Senator REED. Let us see. You have said that the six members of this board who could best be trusted, or at least as well be trusted, as the bankers themselves, as the men who were not bankers.

Mr. UNTERMYER. There is no doubt about that.

Senator REED. I want to know whether it is impossible for the Federal Government, through the Treasury Department or some other great board that may be established as a permanent board, to pick wise and prudent men just as well as the bankers might pick them.

Mr. UNTERMYER. I have always felt that the Government could do it better.

Senator REED. Now, I think you have got to this point: That it is best for the Government to have an inspection system; it is best for the Government to know about the individual bank; and it is best for the Government to transact all of its business, and that it can do it as safely as the banks would do it.

Mr. UNTERMYER. If they would set up something like the same system, yes.

Senator REED. Very well.

Mr. UNTERMYER. We are discussing this system and not so other system.

Senator REED. Very well; but I am talking about whether th can not be a system that will protect the Government if the Gove ment sees fit to issue money to individual banks, allowing that ba to preserve its independent character, and never for a moment m ing it subservient to any other bank or combination of banks, allowing it to go to the Government directly for its assistance.

Mr. UNTERMYER. You lose the security of the intermediate inst tions and all that implies, so that it is not as safe——

Senator REED. I am coming to that.

Mr. UNTERMYER. Because of that fact.

Senator REED. And you think 2 per cent interest would m that up?

Mr. UNTERMYER. I have not said that 2 per cent interest w make that up. What I said was that a guaranty fund of 2 per would undoubtedly cover losses from bad accounts.

Senator REED. Now, let us take these figures. Let us have a eral reserve bank.

Mr. UNTERMYER. You are going to let me go this afternoon cause I have got to go. I mean the committee is, because I hav yet really made the statement I was asked to make.

Senator REED. Really, Mr. Untermyer, I do not like to take time.

Mr. UNTERMYER. I am very glad to be able to give you any i mation at my command.

Senator REED. And I appreciate your attendance, and I woul dwell upon this matter, but I think the influence of your stat here may be very great with this committee and with the coun

Mr. UNTERMYER. You understand me, Senator. I am glad t the committee as much of my time as they desire, but if I ca get through this afternoon in time I would rather come again other time and suit the convenience of the committee.

Senator REED. Very well. As I said, I think your statemen have influence, and weighty influence, with the committee an sibly with the country, and I am frank to say that some o opinions are—well, I do not think very sound, or, rather, I they are extreme upon certain things; and that is the reason asking these questions.

Mr. UNTERMYER. Of course, you know, I reciprocate that.

Senator REED. Undoubtedly; but I am not the witness or viser, and if you are mistaken, or if you have an opinion that absolutely sound, I would like to get at it.

Mr. UNTERMYER. I should like to see it the other way aroun you as witness and me as counsel. I have not the same oppo as witness as you have as counsel.

Senator REED. Yes; I think you do; because I think you ar side of this case better than I can argue the other.

Mr. UNTERMYER. It is very good of you to say that, but I feel that way. A witness is at a disadvantage always.

Senator REED. I think the poor committeeman is at the di tage in this case. Now, having sufficiently complimented eac let us proceed.

Mr. UNTERMYER. I have not begun yet.

Senator REED. Coming back to this question, I want to take up the question of the potential note issue of the reserve banks under this plan. Ten per cent of the national-bank capital would create a fund of $105,691,979.

Mr. UNTERMYER. That is, on the theory of the national banks alone?

Senator REED. No; that is 10 per cent of the national bank——

Mr. UNTERMYER. I say that is on the theory of the national banks alone becoming members?

Senator REED. Yes; certainly. We can not figure the other very well now. The minimum deposits would be $356,231,717; the 33⅓ per cent minimum gold reserve, of course, comes out of that, but that makes a total of what I have just given you.

Mr. UNTERMYER. Out of the $356,000,000?

Senator REED. Yes. It makes a total of assets of $461,923,996, and that, under this bill, can sustain a note issue of $1,385,776,085.

Senator BRISTOW. What are those figures again?

Senator REED. $1,385,776,085.

Senator BRISTOW. Of liability?

Senator REED. Of note issue.

Mr. UNTERMYER. How is it you figure that?

Senator REED. Well, I had a gentleman who can figure take the figures I just gave you and then from them see how much money could be issued under this bill, keeping within the law.

Mr. UNTERMYER. I do not see how he figures it. I would like——

Senator NELSON. No man could figure that, Senator Reed, under this law.

Senator REED. You can, the moment you take as a basis—for instance, we can tell the amount of the capital that would be paid in, the 10 per cent, the amount that that would bring in the national banks, which is $105,691,979.

Mr. UNTERMYER. They could loan out all of that.

Senator REED. Now, the minimum deposits; that is, the reserves which the banks are required to put in, would aggregate $356,231,717. That gives you, then, a total $461,923,996. Now, you can take that, and setting aside each time your gold reserve of 33 per cent, you can figure how much money could be issued against it, and it aggregates $1,385,776,085.

Mr. UNTERMYER. I would like to see how that is figured.

Senator REED. I have not the detailed figures, but the gentleman who figured this——

Mr. UNTERMYER. On what principle is it figured?

Senator REED. The figures were made by an actuary, and it is figured upon the principle that now we have got in this bank $461,923,996.

Mr. UNTERMYER. That is $283,000,000 of loanable funds?

Senator NELSON. That is composed, Senator Reed, as I understand your figures, first, of the stock subscription of the member banks; next of the deposits that they are required——

Senator REED. That they are required to put in.

Mr. UNTERMYER. And deducting one-third——

Senator REED. Then this bank starts to the Federal Government to get money, and it borrows or gets from the Federal Government

$461,923,996 of Federal notes, two-thirds of which is put in circulation, setting aside one-third as the gold reserve.

Mr. UNTERMYER. It puts more than two-thirds in circulation, because it does not need to set aside anything against capital—$105,000,000; it puts $283,000,000 in circulation.

Senator NELSON. He is assuming that you issue notes both for the capital and deposits.

Mr. UNTERMYER. Oh, I see.

Senator REED. Yes; I am talking about this potentiality. Then, having loaned this money out, except the gold reserve, it gets new notes of member banks or obligations of member banks, and having those it goes to the Federal Government and gets more money.

Mr. UNTERMYER. How often?

Senator REED. And it repeats that until it has exhausted its ability to get money, by virtue of the 33⅓ per cent having exhausted the fund.

Mr. UNTERMYER. Your actuary proceeded upon a most violent assumption.

Senator REED. I am talking about the possibilities of this bill, and those are the possibilities of the bill.

Mr. UNTERMYER. They are not even the physical possibilities of the bill.

Senator REED. I do not know why.

Mr. UNTERMYER. You would have to have somebody at every branch bank waiting with commercial paper all day and all night and at the reserve banks straight along. You are assuming that you can keep borrowing day and night. The actuary could make as many figures as he pleased on that. This paper has an extreme maturity of 90 days?

Senator REED. Yes.

Mr. UNTERMYER. You have no right to assume it is going to be 90-day paper. It would probably average 45 or 60 days. He has assumed that from the first day that paper was put in as fast as you can get money you have got new notes that you can keep putting in and getting money every day until the paper matures.

Senator REED. Certainly; and while there would be some loss and some variation, for all practical purposes that would be true, because when this bank is running there is a stream of money going out over the counter and notes coming in, and there is no reason why it should not go across the hall to the Federal reserve agent every day with its notes.

Mr. UNTERMYER. And there is a stream of money coming in?

Senator REED. Certainly.

Mr. UNTERMYER. How can any actuary make figures on that basis?

Senator REED. It is perfectly simple.

Mr. UNTERMYER. He can not make figures on that basis.

Senator REED. I have had made the same sort of figures to apply to the other side. I will now take what I call the "Hitchcock plan" for the present—although I do not think he has indorsed this plan, except by suggestion——

Mr. UNTERMYER. Those are unknown factors.

Senator REED. It is unknown in one case, and they are identical in both cases. I am simply approaching the question of security and the amount that could be issued on that capital. You take the plan

of Senator Hitchcock, of a possibility of 75 per cent of money being issued equal to 75 per cent of the bank stock, the present bank capital is $1,056,919,742. The potential note issue at 75 per cent would be $792,000,000. The present note issue is $733,692,820, making a potential note issue against this bank capital of $1,555,692,820.

Mr. Untermyer. At what figure does the note issue begin—$792,000,000?

Senator Reed. Yes.

Mr. Untermyer. If you begin in the one instance with $792,000,000 of note issue and in the other instance you only begin with $283,000,000 of note issue, I do not see why under Senator Hitchcock's plan you do not have many times more the amount of paper than you would under the regional reserve.

Senator Reed. Because you are absolutely limited by the amount of bank capital in one case, whereas in the other case you are limited only by the amount of commercial paper, which is utterly unknown.

Mr. Untermyer. No; you are not in the other case. If I may suggest, you are limited with a beginning of $283,000,000; that is the loanable funds in the regional bank. Under Senator Hitchcock's plan you start with a loanable fund of $792,000,000. So that in the natural course of things, if you take the same figures for both instances, you will have three times as much paper outstanding on your plan.

Senator Reed. But when you get it out you can not go on and multiply it in one case, whereas you can in the other.

Mr. Untermyer. I do not know why you can not if it keeps coming in and going out.

Senator Reed. But you can not go above 75 per cent of that bank capital in one case, whereas in the other you can go up to the amount of commercial paper.

Mr. Untermyer. The $1,000,500,000 is doubled 75 per cent, according to that statement. Under Senator Hitchcock's plan you have got double your limit already.

Senator Reed. What misleads you and what appears to be misleading in these papers is that there has been used the present bank circulation, which is based upon Government bonds and not upon the stock of the banks.

Mr. Untermyer. Has that been done in both these illustrations?

Senator Reed. That is carried into this particular bank-circulation plan.

Mr. Untermyer. Has it been carried into both these illustrations?

Senator Reed. No; it has not been carried in the other, because the other proposes to retire them. This would not propose to retire them.

Mr. Untermyer. If you have included the $746,000,000 in the Hitchcock illustration, I can understand the figures.

Senator Reed. Certainly.

Mr. Untermyer. Otherwise it will remain stationary.

Senator Reed. Let us see what security is back of this. If the Federal reserve banks—[After consultation with actuary.] I think I owe to the committee an apology and to the witness. While these figures bear on another matter, they do not bear on this point. They are different illustrations.

Mr. Untermyer. I thought so.

Senator REED. And I can follow those through, and I will now, an then come back to this particular point. These sheets were handed t me a moment ago.

Mr. UNTERMYER. Evidently there is something wrong about then

Senator REED. I am speaking now——

Senator SHAFROTH. Why can you not cut them out of the record?

Senator REED. No; they are all right. I have simply now put the figures in and I do put them in for the purpose of showing the p tential note issue under the two plans. Assuming that the minimu of deposits will be made in the reserve banks, if the deposits in reserve banks are not at the minimum, if they mount to a hig place, then, of course, the note-issuing capacity is multiplied definitely. It is dependent upon the amount of deposits, whereas the case of the national banks obtaining this money under wha will call the "Hitchcock suggestion" their total issuance, incluc an amount which is now issued upon the Government bonds, wo be $1,525,692,820. And that answers the question of fluctuation, that is what I had those papers prepared for, but I started to in duce them on the other idea, and it is somewhat confusing.

Mr. UNTERMYER. Have you the figures so that I could loo them?

Senator REED. I have not the details, but will give them to yo

Mr. UNTERMYER. I think there is something wrong about the

Senator REED. I now take up the question of the margin of s in the two plans. I want to assume the organization of the Fe reserve banks. As they are given to me, this is the result: capital paid in at 10 per cent would be——

Mr. UNTERMYER. $105,000,000.

Senator NELSON. That is for the 12?

Mr. UNTERMYER. That is for all of them—$105,691,979.

Senator HITCHCOCK. Mr. Untermyer, do I understand you leave on the 3 o'clock train?

Mr. UNTERMYER. Yes, sir.

Senator HITCHCOCK. Would you be able to come back next or some later day?

Mr. UNTERMYER. If it is required. Senator Hitchcock, bec have not really outlined in any sort of sequence or logical ord recommendations that I desire.

Senator HITCHCOCK. Mr. Untermyer, about how long w take you to make your own statement if uninterrupted?

Mr. UNTERMYER. I should think about three-quarters of an

Senator HITCHCOCK. We expect at 3 o'clock to hear some sota gentlemen. The time after you have to leave we shall giv the Minnesota delegation.

Mr. UNTERMYER. I should like very much to get away at 2 if I can.

Senator HITCHCOCK. Two?

Mr. UNTERMYER. Yes; I have another engagement over i the departments which I would like to keep.

Senator O'GORMAN. Senator Reed, might I ask a question? it interfere with your plan if Mr. Untermyer were allowed to to the completion of his statement and then later take up his gation?

Senator REED. It will not when I get through with this question which I now have before me, but I do not want to leave it in this case.

Assuming that all the national banks came in, each regional bank would have approximately $10,000,000 of capital?

Mr. UNTERMYER. A little less than $9,000,000 on an average.

Senator REED. We will assume it is $5,000,000, which the bill requires.

Mr. UNTERMYER. It would be more.

Senator REED. I am just taking the arbitrary figure.

Mr. UNTERMYER. Yes.

Senator REED. The capital subject to liability would be $5,000,000 more; 5 per cent of the deposits would be $35,000,000. That makes a total of $40,000,000 that you actually have, with $5,000,000 that can be called upon, which makes a total of $45,000,000.

Mr. UNTERMYER. How do you make 5 per cent of the deposits $35,000,000? That includes the Government deposits, too, does it not?

Senator REED. No.

Mr. UNTERMYER. Because the reserves will be $356,000,000. That would only be $17,500,000.

Senator NELSON. That is for the whole system; but he spoke of the $5,000,000 for one reserve bank.

Senator REED. I think these figures are accurate on that point.

Senator NELSON. I do not see where you can assume one regional bank would have this $35,000,000.

Mr. UNTERMYER. No.

Senator NELSON. I do not see where you get those figures.

Senator REED. The figures are assumed in both instances upon the same basis for those in the other banks. I am trying to get the margin of safety. Let me state it again. Take a capital of $5,000,000 for a regional bank, and a capital liability of $5,000,000, and at 5 per cent of the deposit would make $35,000,000. That is a total of $40,000,000 actually in the bank, with $5,000,000 in reserve, a total altogether of $45,000,000.

Mr. UNTERMYER. You have not put in the Government deposits at all?

Senator REED. Not at all.

Senator NELSON. That would not be such a great thing if they were distributed equally among 12 banks.

Senator REED. But the Government deposits are not a margin of safety, as far as the Government is concerned; that is a margin of danger to the Government, if there is any danger in it.

Assuming a note issue of $100,000,000, there would be against that a total protection, so far as the bank was concerned, of $45,000,000 and the proceeds of these notes, which would be $145,000,000. There would be in that case a margin of safety of just the $45,000,000 plus the value of the promissory notes that were put up.

Senator NELSON. But where do you get your assumption of $100,000,000 of note issue?

Mr. UNTERMYER. It is an inadmissible assumption.

Senator NELSON. I do not see what that is based on.

Senator REED. Well, the bank can take its paper down—I am trying to get the margin of safety that will exist back of money that is

issued by a reserve bank. A reserve bank has its capital stock, whi we have assumed to be $5,000,000.

Senator NELSON. Yes.

Senator REED. It has its capital liability, which we have assum of course, to be another $5,000,000. We assume its deposits to $35,000,000.

Senator NELSON. How do you assume it will issue $100,000,000 notes?

Senator REED. I am simply assuming that, because you have to assume a figure. I am going to take the same figures and ass the same proportion on a national bank.

Mr. UNTERMYER. You can keep on reducing the margin of sa by increasing the assumption of notes.

Senator REED. You do not understand me, or I do not underst you.

Mr. UNTERMYER. Yes; I think I do.

Senator REED. And I think I might at least be allowed to a question, and then if it can not be understood or if it is incorrect can be pointed out.

Mr. UNTERMYER. Let me apologize.

Senator REED. No; I do not mean that. I am speaking gene about it. I want to get at an accurate result. I asked a gentl to assume a condition with reference to a reserve bank, and apply the same assumption and the same proportions to a Federal bank, and try to arrive at the question of which woulc the greater margin of safety for a note issue. If you take a F bank with $5,000,000 of capital——

Mr. UNTERMYER. I understand now.

Senator REED. With $5,000,000 of capital that can be callec assume that it has deposits of 5 per cent. You have $40,0 actually in and $5,000,000 of reserves. Assume, now, that i down and gets $100,000,000. It puts up for that $100,000,000 dred million dollars of notes which it has loaned out, but w loaned it out it reduced the cash on hand by that amount, so has actually back of the $100,000,000 that it got $145,000,000 of or a margin of safety of 45 per cent.

Now, let us apply those figures to a single national bank. I capital of $100,000, a stockholder's liability of $100,000, a rede fund in the Treasury of 5 per cent, or $3,750; it has the notes which the paper was issued of $75,000; its assets and stockl extra liability all aggregate $278,750. Its note issue is $75, margin of safety is $267,000, as this gentleman figures it, ins $145,000 as the other plan works out.

I am sure that these figures are correct. They were prepa me by a gentleman who does a good deal of figuring, but tl on the surface to me as though they were actually correct.

Mr. UNTERMYER. I do not think they mean anything.

Senator REED. I would like to have them verified.

Mr. UNTERMYER. They do not mean anything, because composed of a variety of assumptions. Of course you can pr anything if you assume premises, and you must get the conclu

Senator BRISTOW. Just a minute.

Senator REED. If you make the same assumption?

Mr. UNTERMYER. It is not the same assumption.

Senator REED. With the same hypothesis in each instance, and then apply the two different plans, and from that you ought to get——

Mr. UNTERMYER. But you have not made the same assumption. You have assumed in the case of the regional bank that it is going to loan out and issue some currency for twenty times its capital, and you have assumed in the other case that it is only going to get currency for three-fourths of its capital.

Senator REED. Exactly, because I have assumed a law that will only let it get 75 per cent of its capital, and in the other case I have assumed that the system is put into effect that we propose to put into effect under this bill.

Mr. UNTERMYER. It stands to reason that if one corporation only borrows three-fourths of its capital and the other borrows twenty times its capital there is going to be a bigger margin of safety to the one that borrows three-fourths than twenty times; but the facts do not warrant that.

Senator REED. That is just the difference between these two systems. One of them proposes to let a reserve borrow, regardless of its capital, and the other proposes that it shall borrow only three-fourths of its capital, setting aside a gold reserve back of every dollar that it does borrow.

Mr. UNTERMYER. But in the case of the regional reserve you have omitted a number of elements of safety when you say the margin of safety is 145 to 100. You have assumed that there are $1,300,000 of commercial paper in the country at any time for which this currency can be issued, and you have assumed a variety of things, Senator Reed, for which there are no statistics and no warrant for assuming.

Senator REED. Do you think it is safe to draw a bill that is to go into effect as a permanent system in this country based upon an absolutely unknown quantity?

Mr. UNTERMYER. I do not think it is an unknown quantity.

Senator REED. You have just said that you did not know how much commercial paper there was.

Mr. UNTERMYER. What I meant to say was that I do not think it is an unknown quantity in this sense, that there is the safeguard of the regional bank and the reserve board as to the amount of paper. Therefore they have it always within their power.

Senator NELSON. But if you will allow me to interrupt, is not the ultimate question in that case what would the country absorb?

Mr. UNTERMYER. That is the point.

Senator NELSON. What would the trade and commerce and traffic of the country absorb?

Mr. UNTERMYER. That is, legitimately absorb.

Senator NELSON. It is not enough to issue a paper; there must be somebody that wants to use it.

Mr. UNTERMYER. That is what I have been trying to develop.

Senator REED. That would be true in both instances, Senator.

Mr. UNTERMYER. But one is rigid and the other is not.

Senator REED. One is rigid to this extent, that there is a point beyond which inflation can not go, and that point is fixed by the bank capital.

Mr. UNTERMYER. No; but you have a system now under which you can get currency to the full amount of the capital of a bank. That

is inelastic. Now, you propose to substitute for it a system by whic you can——

Senator BRISTOW. It does not substitute it at all.

Senator REED. We propose to place it in addition to the prese law which permits you to have issues upon bonds.

Mr. UNTERMYER. Then, the answer to that is that instead of inelastic system that allows 100 per cent currency issue agai Government bonds, you propose to superadd 75 per cent in equa rigid security. It is not going to do very much good. It will g you more currency.

Senator REED. It is only rigid to the extent that you can not beyond a certain point in inflation.

Mr. UNTERMYER. But the amount of bank capital is no crite of the needs of the country. The fact that the banks have jus much capital stock at this time does not measure—in any degre any theory—the contracting and expanding requirements of country. The contracting and expanding requirements of the c try are measured by the amount of legitimate commercial paper is available at reasonable rates of discount; and that is the scientific test. If you try any other tests you have to have a reasonable test.

Senator REED. I have heard that asserted a great many tin a fact, that the sole test of the amount of money we need i country is to be determined by the volume of commercial paper

Mr. UNTERMYER. Provided it is rigidly tested.

Senator REED. I have not heard anybody go beyond the ass I have not heard anybody demonstrate it, and I am not pr to accept it as necessarily a verity.

Mr. UNTERMYER. But, Senator Reed, those who assert it point to the years of experience of other countries where worked and where they do not have the violent contractions pansions in the currency market, and a famine in currency glut of currency.

Senator REED. Let me see. I will take issue with you on suppose you refer to England?

Mr. UNTERMYER. I refer to all the continental countries.

Senator REED. England's panics have been as frequent an astrous as they have been in this country, have they not?

Mr. UNTERMYER. Not currency panics.

Senator REED. Well, but panics—banks closing, bank smash spread commercial paralysis.

Mr. UNTERMYER. They have had business panics that h reflected in the banks, but they have never had, so far as lection goes, any instance of them in times of prosperity an business conditions. You have not had currency panics w ple could not get money against credits, so far as I know.

Senator REED. They never actually did close their banks, in Great Britain as we did in this country just once in ou but they have had a panic or crash that has compelled the discounts to very high points, have they not?

Mr. UNTERMYER. I do not remember of their being ra high. How high do you call "very high?"

Senator REED. They have not gone high, as compared board of trade speculations down here in New York, but

gone up to practically prohibitive points, until gold flowed in from other countries.

Mr. UNTERMYER. What do you call prohibitive points? They do not frequently need to go to 5 per cent to attract gold.

Senator REED. But they have gone to 10 per cent.

Mr. UNTERMYER. I did not know that.

Senator REED. I have been so informed. I am not an expert on European banking.

Mr. UNTERMYER. I do not know that I have ever seen the statistics as to that.

Senator REED. The prime difference between you and me seems to be this, that you insist on a flexible currency—and I agree with you there. I insist that there shall be some absolute limit placed upon the amount of inflation, and I say that, as bank stock is practically stable, that we would furnish some limit, whereas you say that that is inflexible because there is an absolute limit; and you prefer commercial paper, stating that commercial paper measures the business activity of the country. I do not think it does.

Mr. UNTERMYER. No.

Senator REED. I do not think that it measures the activity of the business of the country any more than the building of houses and the putting up of factories and the construction of railroads measures the business acativity of a country; and I do not think that this bill ought to be drawn for the banks alone or for the commercial population alone, but it ought to be drawn with reference to the entire business of the country and every man, woman, and child in it.

Mr. UNTERMYER. I think we would all agree as to that, and I believe everybody who has participated in the discussion of this bill agrees that it should be drawn for everybody in the country—for the general prosperity. So far as concerns inflation, I do not think that you have here a system proposed that leads to inflation. I recognize a great distinction between legitimate expansion and inflation. I think inflation ought to be defined as illegitimate expansion.

Senator SHAFROTH. Do you not think we had better give Mr. Untermyer an opportunity to make his statement and then inquire as to any improvements which he may wish to suggest?

Senator REED. I am through.

Senator NELSON. I would like to ask two or three questions, and they will be very short.

The system to be inaugurated by this bill is really a system of asset currency, as we understand the term, accompanied with a gold reserve of 33 per cent?

Mr. UNTERMYER. That is a very accurate description of the case.

Senator NELSON. Why can we not build upon the present system of national banks that we have, allowing them to substitute in place of a bond-secured currency an asset currency based upon their commercial resources, with a 33 per cent gold reserve? In other words, why could we not apply the same principle of asset currency and 33 per cent gold reserve to the individual national banks, and so operate and build on the system that we have?

Mr. UNTERMYER. That, it seems to me, is what we are doing, except that we are interpolating between the banks and the Government these regional reserve banks, which are a strong element of added

security and added supervision and management, which is necessary with an unlimited asset currency.

Senator NELSON. You have the reputation of being a good lawyer and you know how the common law grew up. Could we not apply the principles of the common law here to our present national-bank system, and build upon that, giving the banks the privilege of substituting currency upon their assets instead of upon bond-secure currency, and requiring them to put a gold reserve of 33 or 40 pe cent behind it? Why would not that be as safe a currency as th currency?

Mr. UNTERMYER. Senator Nelson, I take it from my reading of t bill that that is precisely what we are doing under the bill, exce that we are adding two elements of further security by interpolati the regional bank between the member bank and the Governme and are providing for a mobilization of our reserves, which wo not be otherwise possible. We are also taking these reserves out Wall Street, where they have been used in speculation.

Senator NELSON. But you rob the individual banks of a part their capital to get this intermediate institution.

Mr. UNTERMYER. I do not agree to that. On the contrary, I th that instead of robbing the individual banks, as I explained yes day, we are benefiting the individual banks, because for the 10 cent capital they have to put up they are almost guaranteed 5 cent return, in addition to which they get back the subscribed ca in the form of rediscount. They are not losing the use of that a Presumably each bank is getting its pro rata and equitable u that fund. No part of that capital has got to be set aside for a reserve. That capital is loanable, as I understand it.

Senator NELSON. Where do they get their gold reserve? V would the reserve banks get their gold reserves; from what so

Mr. UNTERMYER. As I understand it, their gold reserve that are required to put aside is against their demand liability.

Senator NELSON. You do not answer my question. From source are they to get 33 per cent gold reserve?

Mr. UNTERMYER. There is no doubt that they will get thei reserve by using their capital stock and some other——

Senator NELSON. Have they not got to take their capital st get that gold with?

Mr. UNTERMYER. When they take their capital stock to ge gold with, then they replace their money they have thus taken their deposits, because when they have once gotten the gold put aside, they do not need it to put aside again.

Senator NELSON. But their deposits are not their money?

Mr. UNTERMYER. No; but they have to put half their gold against these deposits. There is no gold reserve required their capital stock.

Senator NELSON. No; it is against the currency.

Mr. UNTERMYER. Only against the currency. What I mea they must put aside the gold reserve against the money they b from the reserve bank. If the reserve bank has $100,000 of c $10,000,000 of capital, until it borrows currency, it need not a gold reserve, and then only against the currency issued to i

Senator NELSON. We will take the case of 100 millions of cial paper as put up to a regional bank, and they issue 100 m

these reserve notes, these Treasury notes upon that, and the bank is required to keep 33 per cent of gold reserve. From what source does it get it? It can not get it from those notes that are put up as security. From what source will it get its 33 per cent gold reserve?

Mr. UNTERMYER. From the deposits, the proceeds of the reserves that are put up.

Senator NELSON. From the commercial paper?

Mr. UNTERMYER. Yes.

Senator NELSON. The commercial paper will yield the gold? That is your theory?

Mr. UNTERMYER. Yes; that and the capital.

Senator NELSON. And the 5 per cent——

Mr. UNTERMYER. No, no; the 10 per cent. They have to utilize all their reserves.

Senator BRISTOW. How does the bank get its capital back?

Mr. UNTERMYER. Suppose they have $10,000,000 of capital and $100,000,000 of deposits. They lend a part of it. In other words, the banks come to them with $100,000,000 of paper and ask them for currency. They have $210,000,000 of assets, have they not?

Senator BRISTOW. Yes.

Mr. UNTERMYER. And against that 210 millions of assets they issue 100 millions of currency, against which they have to put aside 33 millions of gold. That 33 millions they get out of their entire assets.

Senator BRISTOW. That came from what?

Mr. UNTERMYER. From resources, taken all together.

Senator BRISTOW. That must come from their deposits and their capital, must it not?

Mr. UNTERMYER. And the notes.

Senator BRISTOW. But the bank gets the notes.

Mr. UNTERMYER. I mean the securities put up.

Senator BRISTOW. The Government does not let them take securities and purchase gold with them, does it?

Mr. UNTERMYER. No; the Government holds these securities, but it takes a part of these deposits it has on hand and part of the proceeds from its stock and buys gold.

Senator BRISTOW. It takes part of the 100 millions of deposits?

Mr. UNTERMYER. Yes, sir. There is no reason why the capital which these banks put up, the member banks, at 10 per cent, could not be loaned back.

Senator BRISTOW. How can it be loaned back when it is all hypothecated with the Government?

Mr. UNTERMYER. The capital is not hypothecated with the Government.

Senator BRISTOW. But the capital has been secured when it is put up by the Government.

Mr. UNTERMYER. The deposits may be used.

Senator BRISTOW. The deposits came from the banks?

Mr. UNTERMYER. Yes.

Senator BRISTOW. So you are taking from the country banks their resources and a part of the resources you can not loan back?

Mr. UNTERMYER. I do not agree. I think a part of these resources you can loan back.

Senator BRISTOW. A part, but not all.

Mr. UNTERMYER. Suppose a bank puts up $10,000 to acquire stock. It could get $6,600 back by way of loan, according to your theory, could it not?

Senator BRISTOW. Yes.

Mr. UNTERMYER. But, according to my theory——

Senator BRISTOW. They could borrow it back?

Mr. UNTERMYER. Yes; it can borrow it all back; and, accordin to my theory, it can borrow it all back because the regional bank ca get its reserves out of its deposits and need not get it out of its capita

Senator BRISTOW. But its deposits are the deposits of the bank They have been taken out of their own community and sent down the regional banks.

Mr. UNTERMYER. But the country bank now sends its deposits aw and gets none of them back. They are used in the city. Under t plan they get two-thirds of them back—they can borrow two-thi back.

Senator BRISTOW. The country bank sends that part of its depo to the city which it needs in the transaction of its business, and banks in the cities——

Mr. UNTERMYER. I beg your pardon; it does not send wha needs in the transaction of its business. It sends what the law quires it to send.

Senator NELSON. Banks keep accounts all over for exchange ness.

Mr. UNTERMYER. Of course they do; but that must be over above their required reserve, because their balance must be equ the lawful reserve.

Senator BRISTOW. Bankers have testified here that the lawf serve was not more than was needed. Many of the banks much as was needed in the transaction of their business.

Mr. UNTERMYER. I do not know what other people have testif but it does not seem reasonable.

Senator BRISTOW. That is what Mr. Frame, who was from kesha, Wis., stated the other day.

Mr. UNTERMYER. They have to have accounts over and abov required reserve to do their exchange business. Under this bi will have to have accounts in the cities, anyway, but they will counts over and above the reserve. I am not talking about the that are needed in the cities for exchange purposes. I am about the amount that the law requires them to have for purposes that they do not get back now.

Senator NELSON. Here is the question: This reserve money to be put in the reserve banks, this 5 per cent, we will ca that to be treated in the reserve banks as reserves are now tr the national banks? That is, must they be kept there perpe an unavailable fund?

Mr. UNTERMYER. I think the bill defines that.

Senator NELSON. What is your understanding? Is that to serve in the reserve banks in the sense that a reserve in a bank is a reserve now?

Mr. UNTERMYER. Is not that against gold? That is, the deposit against their currency issue. Is that what you refe

Senator NELSON. No; I mean the reserve requirements. a country bank is required to keep 15 per cent reserves. Nin

it can have in central reserve or reserve cities; 6 per cent in its vaults. Banks in reserve cities are required to keep 25 per cent; half they must keep in their own vaults. Under this system, when it has finally culminated, after the end of 36 months, the country banks are required to keep, I believe, 12 per cent—5 per cent in their own vaults and the balance in the reserve bank.

Mr. UNTERMYER. No; 5 per cent in the reserve bank.

Senator NELSON. The question is not whether it is 5 or 12 or 6. It does not make any difference. Is that 5 per cent of the reserve banks to be there somewhat as a fund, as it is now, an unavailable fund, for any purpose?

Mr. UNTERMYER. No; on the contrary, it is available in the hands of the regional banks as a basis on which to loan money; that is, two-thirds of it.

Senator NELSON. Can they pay that money out? Must they keep it constantly in their vaults?

Mr. UNTERMYER. No; on the contrary, that is one of the virtues of this bill, that instead of that money being unavailable it is available except as to the gold reserves that must be kept against it.

Senator NELSON. They are not required to keep any other reserve than a gold reserve?

Mr. UNTERMYER. None other. The rest of their assets can all be in the form of member banks' notes, and that is one of the great advantages to the country banks, that whereas at present their reserves of 9 per cent in the city are unavailable to them, under this bill that reserve is reduced to 5 per cent, and two-thirds of that is available to them.

Senator BRISTOW. I received a letter this morning from one of the leading State bankers in our State, and he gave it to me as his judgment that none of the State bankers of Kansas would come into this; that they could not afford to; and he also said that a majority of them could not go in under the law because their capital is not sufficient.

Mr. UNTERMYER. You refer to $25,000 limitation?

Senator BRISTOW. Yes. He thinks that a great many national banks will take out charters under the State law, because it would be more advantageous to them in doing their banking business than under this Federal statute.

Mr. UNTERMYER. I think it will be, as the law now stands, and I have suggested that it be amended in that respect. As the bill now reads, as I suggested yesterday, a State bank may become a part of the regional reserve bank by subjecting itself to an examination and by having the necessary reserves, complying with the conditions of this bill, and it may do a very much wider variety of business and have a broader charter than a national bank; and this bill, to my mind, leaves no inducement open to a national bank to remain a national bank if it can exchange its national charter for a State charter and get wider charter powers than they have now.

Senator NELSON. They can all do that, except in the matter of issuing currency.

Mr. UNTERMYER. No; but the currency can be issued to a State bank under this bill. That is the difficulty which I would like to develop; that is one of the things I wanted to say. My suggestion has been that any bank that wanted to enter this system, any State bank, should exercise only the powers that are possessed

by and allowed to a national bank. If you do not do it as y have now withdrawn bank notes from circulation privilege a as soon as you have now withdrawn the privilege of being a positary for Government funds, I do not see that you have the national banks any advantages that would not be possessed a member State bank whilst the member State bank has powers can do classes of business that the national bank can not. Theref it seems to me you must choose now between one of two alternati You must either have a system of currency available to all S institutions and in that way have them all together out of the nati system, or you have to make the State institutions conform in charter powers to the powers possessed by a national bank; for that purpose you ought, it seems to me, to enlarge somewha powers of a national bank. As between the two systems of a bank or the system of State banks only, under this bill, with li regulations by the Federal authorities, and the system of na banks and State banks on a par, you ought to choose the latte you limit the powers of a State bank to those possessed by a na bank, and enlarge the powers of a national bank, you put th classes of banks on a par so far as concerns their members the association. It has been said that the State banks wou come in. I do not believe it is possible for the State banks other banks to stay out of this system.

The advantages of the system are so manifest and so numero they could not stand the competition; besides which the stabili bank in this system, its ability to get money in times of emerg utilize its reserves, and in that way to use its deposits over a again, is so manifestly superior to anything that the bank of the system would have that it would only be a little whil the State banks would be bound to come in. But you can n it in its present condition. There would be no incentive to a bank to stay in the system, and every incentive to convert i State bank, because it would get all the benefits of membersh system and none of the restrictions in respect to its charte or methods of doing business.

Senator O'Gorman. What would be the objection to enlar functions of a national bank to the extent now possessed by banks generally?

Mr. Untermyer. I am very much in favor of enlargi powers, except in certain directions. For instance, in son States the trust companies and the banks are allowed t stocks—to buy and sell stocks—and it is an unsafe thin ought not to be permitted to do it, and no State bank permitted to be a member in this system and get the benefi rency and the protection of this system unless its charter p limited in that way. It would not be necessary, as was yesterday, to alter its charter, but only to provide that bank should exercise powers not possessed by national then enlarge the powers of national banks.

Senator Pomerene. In what particulars?

Mr. Untermyer. I would allow the national bank to b of a deed of trust or mortgage. I should allow it to be a I think those are the principal particulars in which I wou the powers; I would probably allow it definitely to hav

proportion of its capital in bonds of a certain character. Some of them buy bonds now, but I do not think they have the power to do it. At one time they bought and sold and dealt in stocks until they were stopped by the comptroller. He has not yet stopped them from investing in bonds, but he should have done so long ago. In the larger cities they are promoters, underwriters, syndicate managers, and act as issuing houses and bond sellers on a large scale. It is all wrong.

Senator NELSON. Evidently you are not familiar with banking in the rural communities in the West. The great thing in favor of the State banks is that they can loan on approved bonds, on real estate security; that above everything else. They do not care about loaning on bonds such as you spoke of.

Mr. UNTERMYER. I did not mean loaning on them, but owning them as permanent investments. There is no reason why they should not lend on bonds or stocks.

Senator NELSON. They do not care about owning the bonds, because they can do very much better on real estate loans, first-class farm mortgages. That is the great consideration for State banks out there; and you can not get one of them to go into this system if you deprive them of that privilege.

Mr. UNTERMYER. That ought not to be an insuperable objection, although a farm mortgage is not a very liquid security. It seems to me something can be done in that direction, although I had understood that we were going to have a system of farm credits, agricultural credits similar to the continental systems.

Senator NELSON. That would be an agricultural bank. That is another scheme.

Senator O'GORMAN. You think the power possessed by State banks to buy and sell stock is an unwise power. Has it proved to be unwise in the experience of State banks?

Mr. UNTERMYER. I think it has proved to be unwise in this sense, that in the great cities, some of them, they have become pretty active speculators in the market.

Senator O'GORMAN. State banks?

Mr. UNTERMYER. State institutions; I would not like to say State banks. I would not care to be any more specific.

Senator NELSON. Senator O'Gorman, can the State banks in your State loan on farm mortgages?

Senator O'GORMAN. Savings banks can loan on mortgages.

Senator NELSON. But not the other State banks?

Senator O'GORMAN. No.

Senator SHAFROTH. Have you examined the bill which I introduced with relation to taking in what national bank currency is now outstanding?

Mr. UNTERMYER. I have, and I know the bill, and there is a like bill by Senator Owen. I have that here, and in its main features it is a very wise bill. It seems to me we ought to have something of the kind. As I understand the bill, it proposes to deal with two subjects: First, the gold that is now on storage with the Treasury against the gold certificates for which the Government acts simply as a warehouseman for the moment, and which amounts to in the neighborhood of $1,100,000,000; secondly, it proposes to deal with the retirement of the bank-note currency, which amounts now to $746,000,000.

Senator SHAFROTH. And also for the retirement of greenbacks.

Mr. UNTERMYER. And putting that fund of 150 millions into the general fund.

Senator SHAFROTH. And providing for a 50 per cent gold reserv to maintain that currency.

Senator NELSON. It provides for the issue of a new Governme paper currency.

Mr. UNTERMYER. Yes, sir. It seems to me that there is no more co venient or available way in which we can get gold than by canceli these gold certificates as they come in from customs and in other wa into the Treasury and issuing for them a Treasury note with a per cent gold reserve back of them. If you get in all of the gold c tificates under that plan you will have $500,000,000 of free gold. a unless you utilize it for the bank note currency—as I understand propose to sell those bonds—do you not?

Senator SHAFROTH. No; the theory is to take them all and use gold for all of them.

Senator NELSON. Take up the national bank notes and issue new national currency?

Senator SHAFROTH. Based on the 50 per cent gold reserve.

Mr. UNTERMYER. The plan that has been a good deal discuss late, and I think it is a very wise one, would release a great de gold. My suggestion would be that instead of utilizing the su gold that would come from the redemption of the gold certif leaving only 50 per cent against those certificates.

Senator SHAFROTH. As it is now, there is 1,100 millions of g the gold-certificate fund.

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And there are 700 millions, say, in round bers, of bank notes. There are 346 millions of greenbacks on there is a reserve.

Senator NELSON. There is about 2 millions of other notes issu der the gold purchasing act.

Senator SHAFROTH. They are so insignificant that we do n to take that into consideration.

You are for a gold reserve, then, of about 1,300 millions of and upon that the most that could be issued would be to rep certificates, which would be 1,100 millions, to replace the gre which would be 346 millions, and to replace the 700 millions notes, which, added together, would make about 2 billion, 146

Mr. UNTERMYER. And 1,300 millions of gold.

Senator SHAFROTH. And 1,300 millions of gold, or abou cent in gold, which would make a perfectly safe currency?

Mr. UNTERMYER. It would make an ideal currency.

Senator SHAFROTH. And would not the legal-tender qual added to the note cause it to increase in value and give it, as of fact, a tendency to keep it on a par with gold?

Mr. UNTERMYER. It ought to have and would be entitled t tender quality, and the gold reserve back of it would kee par with gold always. That is a very large gold reserve.

Senator SHAFROTH. And the legal-tender quality would s the currency, would it not?

Mr. UNTERMYER. Yes.

Senator SHAFROTH. And would have a tendency to overcome the objection which we now have to national-bank currency, because the national-bank currency is not permitted to be used as reserve?

Mr. UNTERMYER. Yes; it should be available as a reserve.

Senator SHAFROTH. It would be if it was full legal-tender money.

Senator NELSON. But, Mr. Untermyer, how could the Government put that money out into circulation except for the payment of its bills, its expenses, salaries, etc.?

Senator SHAFROTH. It could not; it would come gradually.

Senator NELSON. How would they get it through the Government? Would not the Government have to go into the banking and discount business?

Mr. UNTERMYER. As I understand this matter of gold certificates, they are being paid in every day for customs duties. When they come in, there is certainly no difficulty in issuing Treasury notes in their place.

Senator NELSON. What good would it do to issue the Treasury notes and to keep them in the archives of the Government? It would have to pay out those Treasury notes to somebody.

Mr. UNTERMYER. They should be a perfectly good legal tender.

Senator SHAFROTH. They would take the place of the gold certificates that come in.

Senator NELSON. That come in here, and they issue paper money for it. Who takes that out?

Mr. UNTERMYER. Who takes out the gold certificates as they come in now?

Senator NELSON. They take out the gold certificates, but that is measured by the present volume of the currency. It has nothing to do with the business of the country.

Mr. UNTERMYER. You would pay them out in the ordinary course of disbursement. You would deposit those Treasury notes in your bank accounts instead of your present gold certificates and check against them. This is a perfectly simple process.

Senator NELSON. It would make a better system, then, than this regional reserve system?

Mr. UNTERMYER. No; I think it would be supplementary to the regional reserve system. This does not create any additional currency; this only substitutes one kind for another.

Senator NELSON. It obviates the danger Senator Reed was fearing.

Mr. UNTERMYER. This would perfect that system.

Senator SHAFROTH. You say the gold certificates would still be in existence if anybody wanted them? And it does not force the national banks to surrender their currency unless they find that it is to their advantage to do it, and the advantage which they have by reason of cashing it would be to cash their 2 per cent bonds at par, which they now fear might go to a discount. It seems to me, when it is voluntary on their part, it would be a gradual substitution.

Senator NELSON. Why would it not be an immediate substitution for the regional reserve bank?

Mr. UNTERMYER. It does not create an elastic currency.

Senator NELSON. That is what I was trying to get at and you seemed to evade it. I said how was the Government to pay out this money?

Mr. UNTERMYER. It pays it out in its general disbursements; th is all. It does not give us any more currency.

Senator SHAFROTH. No; it does not inflate the currency a partic

Senator HITCHCOCK. We will take a recess until 2.30 o'clock. M Untermyer, as you must leave, we would like to know if you can co back on Monday?

Mr. UNTERMYER. Yes; I can return on Monday.

Senator HITHCOCK. Would 11 o'clock on Monday be satisfact to you?

Mr. UNTERMYER. Yes, sir.

(Whereupon, at 1 o'clock p. m., the committee took a recess u 2.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Wells, will you please state your for the record, and your business and your place of residence

Mr. WELLS. My name, Edward B. Wells, of Minneapolis. I the milling business, the elevator business, and connected wi investment securities business.

Senator HITCHCOCK. Have you a statement that you would make to to the committee, and is it in such form that you wou to read it?

Mr. WELLS. Yes; without objection. I should like to do that

Senator HITCHCOCK. Well, you may proceed.

STATEMENT OF EDWARD B. WELLS, OF MINNEAPOLIS,

Mr. WELLS. This delegation, gentlemen, is here represen cially the Minneapolis Civic and Commerce Association, co a membership of something like 2,000 business men of Min As you will readily perceive, it embraces all classes of busin large and small, in every branch of our industries.

Also, the Minneapolis Chamber of Commerce, with a me of 550, devoted chiefly to the grain and allied industries etc.; and also the Duluth Commercial Club, with a meml 1,000, also representing the business interests of that city.

The principal lines of business in the Northwest are re through these organizations. Would you care to have here of the gentlemen composing the delegation and their occu your record, Mr. Chairman?

Senator HITCHCOCK. I think each one of those gentl state it as he comes before the committee.

Mr. WELLS. Well, as individuals, I may say——

Senator HITCHCOCK (interposing). If you prefer, ho may file that with the stenographer.

Mr. WELLS. I can do so, if you wish.

(The list referred to is as follows:)

Delegation representing the Minneapolis Civic and Commerce Minneapolis Chamber of Commerce, Duluth Commercial Club, lines of commercial business in the Northwest.

Edward P. Wells, president Russell-Miller Milling Co., Minn dent Electric Steel Elevator Co., Minneapolis; president Wells (investment securities).

Charles M. Harrington, elevator operator and grain merchant, Minneapolis.
F. E. Kenaston, manufacturer of thrashing machinery, farm tractors, and other agricultural machinery, and country banker, Minneapolis.
A. H. Comstock, wholesale hardware (Marshall-Wells Hardware Co.), Duluth.
Hovey C. Clark, lumber manufacturer, Minneapolis.
Fendall G. Winston, wholesale grocer (Winston, Harper, Fisher Co.), contracting and engineering (Winston Bros. Co.; Winston & Deere), and banking, Minneapolis.

As individuals we represent milling, grain trade, lumber manufacturing and jobbing.

We assume no knowledge of the science of banking. We represent a much larger and more important class—the borrowers.

We are come not to instruct your committee nor to support the contentions of the bankers.

It has been claimed that the effect of the bill under consideration will be to restrict the credits of the country. If this is true we should be unfaithful to the business interests of the great and growing Northwest if we do not enter our protest. If the claim is not justified we should be unfair to the framers of the bill if we do not frankly report our conclusions to those who sent us.

The business interests of the Northwest include the small country banker, the merchant, the farmers. For 20 years of my business career I was myself a small country banker, the very small country miller, and as well the farmer. My associates were these men. My best friends were and are to-day found there. But if anything takes place that prejudices the credit and embarrasses the business of the banks, the manufacturers, and the merchants of our northwestern cities it is at once reflected in the diminished prosperity of the country banker, merchant, and farmer. One quite naturally finds his first illustrations in his own business experience. My own company is engaged in the manufacture of flour. We operate 11 mills, and 10 of them scattered through the wheatfields of North Dakota and Montana. We also have elevators at some 80 or 90 other points in these States, primarily to purchase wheat for our mills. Because we want the first choice of the wheat of these States for our own use we can afford to pay, and do pay to the farmer, from 2 to 3 cents per bushel more than the elevators can afford to pay and assume the risk of shrinkage, dockage, short weight, and market conditions in shipping. During the year ending August 31, 1913, our mills and country elevators purchased over 20,000,000 bushels of wheat, on which it is safe to say that we paid an average of more than 2 cents a bushel above current market rates, or to the farmers of those States, dealing with us alone, $400,000. To enable us to purchase this wheat at the time when the farmers wanted to sell necessitated with us that we borrow between $2,000,000 and $3,000,000. If for any reason it had been impossible for us to do this the wheat would have been sold in the open market at current market prices. A similar restriction of credit experienced by the thousands of line elevators and by the independent and farmers' elevators in the Northwestern States would unquestionably have resulted in still lower current market prices and an an additional loss of many hundreds of thousands of dollars to the farmers of those States, with a corresponding shrinkage in their purchasing power, which would have been felt not only

by them but by the laborers, the small tradesmen, and the countr bankers.

The similar effects that would have been felt I shall leave to m associates in this delegation to tell you of, as it may affect the interes that they more directly represent. If convinced, as I shall be gl to be convinced, that I am mistaken in anticipating restricted cre as a result of this measure, I can offer no criticism of this featu of the proposed legislation. Perhaps as a business man I may pardoned for saying that I should look with disfavor on a propo tion coming from any source to take from me any part of my vested capital to be put into an enterprise in the management which I was to be permitted no voice and which might under s conditions become the football and plaything of politicians w out experience in the business.

I would like to call attention to another provision of this bill, the purpose of which I am in hearty sympathy, to wit, the pro tion of the use of paper as a basis for credit to be employed for ca ing or trading in stocks, bonds, or other investment securities. connected with a concern whose business is that of purchasing, c ing, and trading in high-class municipal and corporation bonds farm mortgages—never in a speculative way, never upon ma and yet of necessity to meet the requirements of its customers, ing hundreds of thousands of dollars' worth of strictly nonsp tive, sound investment securities, and often requiring large accommodations to enable us to carry the securities. Our c represents hundreds of other and like concerns engaged in s business. Is there not some way by which such legitimate takings may be recognized without letting in the promotion sc the stock jobbing, and the other forms of speculation against this bill evidently attempts to provide?

There are one or two other points in the bill, and one in pa that I want to speak of very briefly, and that is the feature bill that provides for an advisory board and withholds comp from it. It seems to me that that provision, if made effective practically prevent the participation in any degree whatever advisory board in the councils of the Federal reserve board lieve that the business men generally of the country would approve of a provision that should make—at least some pa give to some part of that advisory board, its chairman, or i tive committee—compensation upon the same scale as give members of the Federal reserve board, and with the condi that man, or those men, should reside in the city of Wa should be permitted to sit with the Federal reserve board, to it the benefit of their practical knowledge of the subject be by them under consideration at all times.

I presume that you have been flooded here with letters f try bankers. I have one, out of a good many that I hav that is very temperate in tone and so well expressed that I haps be permitted to read it. It is from the James Rive Bank, of Jamestown, N. Dak., in response to a simpl from me:

How do you feel with regard to this new currency bill and affect you?

In reply I have only three or fours days ago received this letter, which I will read to you. [Reads:]

THE JAMES RIVER NATIONAL BANK,
Jamestown, N. Dak., September 16, 1913.

Hon. E. P. WELLS, *Minneapolis, Minn.*

DEAR SIR: Replying to your letter with regard to the currency legislation now before Congress known as the Glass bill, I wish to say that we do not regard this bill favorably in its present form. The country banker does not look at all favorably upon the provision in this bill requiring him to furnish capital for the Federal reserve banks, in the management of which the bankers have no voice. Loss of interest on reserves deposited with the Federal reserve banks, loss of exchange, and only a possible 5 per cent return on the capital invested are, to say the least, not attractive.

It certainly seems to us that the banker who is required to furnish the capital and most of the business of these Federal reserve banks should at least be represented in managing them, and we do not look with favor upon the prospect of political management of the banking affairs of this country.

An opportunity to exchange a part of their best paper for cash in time of need is most earnestly desired by the small banks and is, in my opinion, by far the most important matter dealt with by the proposed legislation. We doubt whether the country bank in the Northwest will be able to avail itself of this privilege should this bill become a law in its present form, as the paper ordinarily carried by such a bank does not meet the requirements made. If this rediscount privilege is extended to the small banks and made immediately available in time of need, without delay by reason of cumbersome methods or otherwise, I am sure it would prove a privilege of inestimable value to all banks.

We are glad that some action is being taken by Congress and have no doubt that should the present bill be passed it will be amended later to suit the needs of the country at large, should it not prove entirely satisfactory.

Yours, very truly,

H. T. GRAVES, *President.*

Senator HITCHCOCK. Senator Nelson, have you any questions to ask Mr. Wells?

Senator NELSON. No.

Senator HITCHCOCK. Senator McLean, have you any?

Senator McLEAN. No.

Senator HITCHCOCK. Senator Bristow?

Senator BRISTOW. You speak as a business man, and you are under the impression that it will cause a contraction of credit. What makes you think it will cause a contraction of credit, Mr. Wells?

Mr. WELLS. I should be glad to answer that question personally, Senator Bristow, but it is a branch of the subject that has been assigned to one of my colleagues on this delegation.

Senator NELSON. I want to say to the Senators that there is a delegation here, and they have different subjects apportioned to each of them, and perhaps it would be well to let this go until the gentleman who is to speak on this subject takes that up.

Senator BRISTOW. Of course I do not want to interfere with their plans, but it is a good deal more satisfactory to me to have the opinions of all of them on what appears to be important, because then you get the judgment of six men independent of any conferences which they have had, and I think we would get in that way a better reflex of opinion. That is all.

Senator POMERENE. That is right.

Mr. WELLS. I have not the slightest objection. But I do not want to appear to deprive my friends here of the privilege of presenting their subject. We are in perfect harmony on all of these points. We have reviewed them and assigned them to different members of the

delegation. The withdrawal of the capital in this manner, primarily, of course, represents the first shrinkage in the loanable funds.

Senator BRISTOW. That is, you refer to the contribution of the country bank——

Mr. WELLS (interposing). To the central reserve banks.

Senator BRISTOW. And deposits?

Mr. WELLS. The shifting of the reserves from the points at which banks are now getting interest to reserve banks that will pay no interest represents, of course, a great shrinkage. The proposed withdrawal of a vast sum of money that is now in the savings banks departments of our national banks—segregating that and making that usable for an entirely distinct line of investment—takes it out of business channels. Those, I take it, are the three chief channels through which the loanable fund will have disappeared.

Senator BRISTOW. Now, it has been argued here that, while the country banks contribute their capital stock and of their deposits, it is sent out of the community to a distant city, that they are compensated by being able to borrow back a large amount of it; and that, while apparently it reduces the capital in the national banks individually, it does not. That is the position assumed by Mr. Untermyer here this morning.

Mr. WELLS. Well, of course, the country banker, I think, universally claims that the privilege of rediscounting is not in practice available to him. The country banker is not possessed of paper that falls within the restrictions of this bill.

Senator BRISTOW. Yes.

Mr. WELLS. I have a little knowledge of country banking, and I have, of course, conferred with a good many friends who are country bankers. And the country bankers' paper is seasonable paper. It would be utter folly to take from the ordinary farmer, or the merchant who is dependent upon the farmer in the country, a piece of paper maturing at any other time than in the fall of the year. So that, while I was actively in that business, I know it was our custom, with such paper as we could not collect in the months of October, November, and December, to renew it, not until next spring or next summer, but until a year from that time. That, I think, will be found to be the chief asset in most of the country banks in the Northwest. It would be paper maturing——

Senator NELSON (interposing). In six months or a year?

Mr. WELLS. It would be maturing in the fall. Of course, very little paper is given by the farmers in the spring. They make their annual clearances and settlement when they have harvested and marketed their crops. They pay their debts as far as their crops will permit, and what they can not pay they renew until next fall, because the lender knows that it would be useless to take paper with an earlier maturity.

Senator BRISTOW. Yes.

Mr. WELLS. Well, so that, to be perfectly frank with you, the country bankers depend for their business upon the farmers, directly or indirectly. Now, farmers are improving in their circumstances, so that it is not as general as it was at one time; but they once marketed all of their crops in the fall within a period of 30 days. So that those conditions are changed to that extent now. But it will be a slow process to change them entirely; and until that is done,

a larger part of the country banks' assets will be found in the paper which matures in the fall, and which, if not paid, is extended until the following fall.

Senator HITCHCOCK. Senator Bristow, have you finished your questions?

Senator BRISTOW. Not quite. Then, from your experience as a business man and banker, you are under the impression that the paper that is provided here in the bill as security for rediscounts is paper held by the banks in the large cities more than by the banks in the country?

Mr. WELLS. Yes, sir. And even there I think it would be difficult to find the necessary basis for the credit required, except as paper might be worked off that had already run part of the period. I know that we borrow $1,000,000 every year, and yet I presume that 90 per cent of the paper—I do not know that I am quite correct, but 75 to 90 per cent of our paper—is six months' paper. That would only be available under the bill by catching it in the interval somewhere.

Senator BRISTOW. Yes. You say you borrow millions of dollars every year?

Mr. WELLS. Yes, sir.

Senator BRISTOW. And of the millions that you borrow, not to exceed 25 per cent and possibly not to exceed 10 per cent of it, would be available for use under the provisions of this bill?

Mr. WELLS. Except as I have intimated, that the banks having held that paper until it has come down to the period within which its maturity would carry it.

Senator BRISTOW. Yes.

Mr. WELLS. And make it eligible.

Senator BRISTOW. Yes.

Mr. WELLS. Except as to that, it is true.

Senator BRISTOW. Yes. Well, did you understand from the bill that provision is made for the retirement of the national-bank notes, and the only currency that is to be substituted for it is this currency based on 90-day paper?

Mr. WELLS. No; I can not say that.

Senator BRISTOW. But that is the provision in the bill. I think it is correct that the bill makes no provision for any substitute for the national-bank notes when they are retired, except this currency based upon the——

Mr. WELLS (interposing). Yes; I have understood that.

Senator BRISTOW. Yes. It is claimed by some that that would result in a great contraction of the currency and by others that it offers an unlimited possibility for inflation. What is your view as to that?

Mr. WELLS. The inflation would come through an excess of the use of the rediscount privilege, would it not?

Senator BRISTOW. Yes.

Mr. WELLS. That is the only way you would get the expansion. Now, that, of course, is a question that I am not qualified to answer. I am not a banker. My banker friends all assure me, of course most earnestly, that they would hesitate to rediscount—to become themselves responsible for large sums of money, merely for the privilege of

turning around and loaning to their customers. It is contrary to what has been heretofore considered good banking practice. It is possible that you gentlemen, through the medium of this bill, may so change that as to make it so attractive that bankers will fall over each other in order to come in and apply for their rediscounts. But I know it will be contrary to the prejudice of this whole country. There is hardly a business man who analyzes a bank's statement up to the present day who is not prejudiced against a bank in which he finds a showing of a rediscount.

Senator BRISTOW. Do you think, then, that it would be a rather novel and unusual proposition to have the entire currency of the country practically based upon rediscounts?

Mr. WELLS. I certainly do.

Senator BRISTOW. That is all.

Senator HITCHCOCK. Senator Weeks, have you any questions?

Senator WEEKS. Mr. Wells, you read a letter from a Jamestown banker?

Mr. WELLS. Yes, sir.

Senator WEEKS. Do you think that is typical of the opinion of country bankers in the locality which is tributary to Minneapolis?

Mr. WELLS. Why, I have perhaps either talked with or heard 100 or 150 country bankers within the last three months discussing this bill, and I do not remember to have ever heard an expression favorable to the provisions of the bill.

Senator WEEKS. The statement has been made that one reason for such a condition that exists is that bankers in reserve and central reserve cities were using their influence to urge the country bankers to oppose the bill. Do you think there is anything in that?

Mr. WELLS. Well, I do not believe they go so far as to use their influence to urge the country banker. I believe, quite frankly, that the bankers in our cities—the larger cities—more or less do influence the attitude of the country bankers. We can hardly doubt that. I think a great many country bankers either have not felt competent or have not been willing to go into an exhaustive study of this bill and to apply its provisions to their individual cases and determine for themselves what the effects would be. But they see two or three things that stand out conspicuously. The requirement that they shall contribute to a bank a part of their capital—to a bank over which neither they nor others like them have any sort of control, and in which they exercise no sort of influence. That is rather a natural sentiment. I think I would apply it to my own business, and that anybody else would.

Senator WEEKS. It is the same kind of influence which exists at all times in banking, that the country banker depends on his reserve agent for information about the quality of paper and other matters relating to the banking business, is it not?

Mr. WELLS. There is no doubt of that.

Senator WEEKS. And, naturally, he would be influenced by the opinion of the man on whom he depended in other matters.

Mr. WELLS. I have not a doubt about that.

Senator WEEKS. When I returned to my office after this morning's hearing, I found a letter from a New York business man who had recently been traveling through the West, and he said he found an impression among business men quite generally that conditions were

such that it was necessary to pass the pending bill, or a bill like it, and do it at once, in order to prevent some great catastrophe. Do you know whether any such condition as that exists?

Mr. WELLS. I do not think there is any such condition as that at all. I do not think the business interests would be prejudiced if no bill were passed at this session of Congress.

Senator WEEKS. You do not know of anything in the business conditions to-day which presents an emergency which did not exist six months ago or a year ago, do you?

Mr. WELLS. No. I think the conditions to-day generally—the outlook—is better than it was as distinguished from any fictitious condition that may result from uncertainties, just like this with regard to the complete upheaval in our banking system.

Senator WEEKS. Do you not think that my correspondent was deceived in his impression which he gained?

Mr. WELLS. That would be my impression.

Senator WEEKS. And that the business men of your section would look with approval on ample time being taken to present a bill which would be as nearly right as a bill could be?

Mr. WELLS. I believe that the business interests of the whole country—not merely those of our section, but of this entire country—would prefer to take the chance of a continuance under our existing banking system temporarily, but long enough to let the business interests of the country familiarize themselves with the proposed legislation, to digest it, and express themselves upon it.

Senator POMERENE. Senator Weeks, did that last question of yours have reference to this bill or to your resolution? [Laughter.]

Senator WEEKS. To general conditions. I heard you make one suggestion in your statement, Mr. Wells, that the members of the advisory council should live in Washington?

Mr. WELLS. Some representation of that committee.

Senator WEEKS. Well, do you mean the members or the secretary?

Mr. WELLS. I said, if you will remember—I qualified it—I will say now that I do not believe that it will be necessary that the entire advisory council should be so provided for, but that some representation, a small executive committee of three, if you please, if we have as large an advisory board as is suggested in the bill, which, I believe, would be 12, as it stands now, or the chairman and the secretary. But some one representative of that advisory board, who might be in constant touch with his associates throughout the country and serve as the point of contact between that board and the Federal reserve board.

Senator WEEKS. That would mean a secretary, would it not, probably?

Mr. WELLS. Well, whatever you choose to call it. The secretary is hardly, I think, the man. That is, there would hardly likely be chosen a man of sufficient importance to fully represent the banking interests of the country.

Senator WEEKS. It struck me when you said that as being an inadvisable suggestion, because if that advisory board is going to be of any real benefit, it is going to confer that benefit from the fact that it is made up of men from all sections of the country who are in immediate touch with business conditions in the sections which they represent and who should live there and be in business there.

Mr. WELLS. I think you are perfectly correct; but I believe there should be some proper medium through which the convictions and the impressions of these men scattered throughout the country should be brought officially to this Federal reserve board, and I do not believe it should be through a secretary. I think they should select their best man as chairman of the board, if you please—or three men as an executive committee, and let them reside here. It is just as important that they should keep in touch with the work of the Federal reserve board and the process by which it reaches conclusions as that the Federal reserve board should keep in touch with the country at large.

Senator WEEKS. I presume the banks would allow themselves to be assessed to pay the expenses, would they not?

Mr. WELLS. I think they would. I would if I were a banker.

Senator O'GORMAN. Mr. Wells, you say the present discount features of the bill will confer no benefit upon the country bankers?

Mr. WELLS. I did not make that statement myself. I said that that is the claim that is made. That is the impression of the country banker—that it would not.

Senator O'GORMAN. Have you any suggestion to make as to what modifications should be made in the pending bill, so as to extend the benefits of the rediscount features to the country banker?

Mr. WELLS. It is a pretty difficult problem. I will tell you right now that I would hate to suggest that the class of paper that the country banker in the remoter districts is obliged to take should be made the basis upon which our currency is issued—the collateral behind it. And that is not in the slightest degree questioning the quality of that security, but how any individual, or any board, is going to pass upon the quality of the paper of Dick Jones, for instance, given off in Wyoming, for a small bunch of alleged sheep, I do not know. [Laughter.]

Now, you can tell about the credit of our large concerns in our leading cities; it is a simple proposition. But when you come to rake the country with a fine-tooth comb and pick up all the pieces of paper that are perfectly good in the hands of those local banks, their neighbors, and pass upon them, and make them as important in the financial structure of this country as is proposed in the bill, I would not make the suggestion.

Senator O'GORMAN. You are in business in Minnesota, are you?

Mr. WELLS. Yes, sir; and in Dakota and Montana.

Senator NELSON. He lives in Minneapolis.

Senator O'GORMAN. The business outlook in that part of the country is perfectly satisfactory?

Mr. WELLS. Yes, sir.

Senator O'GORMAN. Better than it was a year ago?

Mr. WELLS. I can not say. It has been good for some time there.

Senator O'GORMAN. And the advance in business conditions has not been arrested at all by the tariff bill? [Laughter.]

Mr. WELLS. We have not been able to discover it.

Senator O'GORMAN. That is all.

Senator NELSON. We got a bountiful crop in our country, did we not, in Minnesota?

Mr. WELLS. We got a much better crop than we anticipated.

Senator NELSON. Yes. I want to ask you one question. How do you regard farm loans, mortgage loans, on improved farms?

Mr. WELLS. I think my concern carries always in its vaults from $300,000 to $500,000 worth of them. I do not know that any other answer is needed. We have been doing that for 36 or 37 years.

Senator NELSON. Do you regard it as first-class paper?

Mr. WELLS. I regard it not as first-class banking paper, but as first-class investment paper.

Senator NELSON. Is it better than stocks and bonds?

Mr. WELLS. I do not question the value of it. I think there is no better class of security in the world than first-class farm mortgages selected by intelligent men who are familiar with the conditions in the locality in which the property is situated.

Senator O'GORMAN. Might I ask you another question? What is the average rate of interest on your farm loans?

Mr. WELLS. Our farm loans are being made in Minnesota at a net cost to the farmer of 6 per cent.

Senator O'GORMAN. And in the other States?

Mr. WELLS. In North Dakota, I should say (now, I do not have time to give my personal attention to these details), I think I am safe in saying the maximum rate for farmers in North Dakota is 7 per cent, which covers agents' commissions and all expenses. In Montana, I think perhaps you will find the rate is just a trifle higher. As you get further away from the sources of supply and the settlement of the country is more scattered, and the expenses of examinations and all that are greater, necessarily there is a slight additional cost.

Senator NELSON. I think in the southern part of the State it is 5 per cent to 5½.

Mr. WELLS. Five and a half. It is not quite as low, Senator, as the rates were two or three years ago. There has been a highering of all rates in this country in the last 20 years.

Senator WEEKS. Where do you suppose these figures in circulation, to the effect that the farmers are paying 7½ to 8 per cent, originate?

Mr. WELLS. I think the people dream that largely.

Senator O'GORMAN. They are paying extreme rates in the Southern States now.

Mr. WELLS. Yes.

Senator WEEKS. They are paying an extreme rate in the Northwestern country.

Mr. WELLS. Yes. I made a little experiment down in the Imperial Valley that comes near being as good an estimate as anything I could get. I find down there the farmers are borrowing money at 8 per cent, total cost over everything. I do not know where you can find a higher rate than that.

Senator POMERENE. Mr. Wells, have you analyzed this bill so as to place in parallel columns the advantages the banker has under the present system and the advantages he would have under this system?

Mr. WELLS. No, sir; I have not.

Senator POMERENE. Or the disadvantages under either system?

Mr. WELLS. I have not, except as to some minor features of it.

Senator POMERENE. I notice, in answer to Senator O'Gorman's question, you disclaimed stating that it was your judgment that this might be prejudicial to the country banker, and expressed that as being the opinion of some of the country bankers.

Mr. WELLS. Yes.

Senator POMERENE. What is your individual opinion on the subject?

Mr. WELLS. I tried to make a parallel yesterday in a case of a single bank. I do not know whether I made it correctly. I am not a banker. I may have made mistakes, but I frankly say to you that it did not appear to be of such great disadvantage to that particular institution in its present condition as I had anticipated.

Senator POMERENE. Do you object to giving the instance you have in mind? I do not care for you to mention names or anything of that character, but give us your analysis of the proposition.

Mr. WELLS. I do not know that I have it here. I think I armed myself with everything that might possibly be called for. Yes; I have it. I took the case of a banker with a capital of $100,000, deposits of $600,000. Under the present law a reserve of 15 per cent—$90,000—with 6 per cent in the vaults and 9 per cent in the reserve banks is required. That is $54,000 in the reserve banks, upon which they are getting 2 per cent interest. That would be $1,080. The bill as it now stands, with a 12 per cent reserve, of which five-twelfths, which is 5 per cent, would have to be in the vaults, is $30,000, and $30,000 in the Federal banks, and at the expiration of a certain period, a tentative period, the other $12,000 is optional. Under the new law, in your bill as it stands at the present time, the bank would have $18,000. It would have that amount released from its reserves, which would be a reduction of the percentage from the reserve required. In other words, it would have $18,000 more available to be loaned out than it had under the old law. At the same 6 per cent it would earn $1,080, exactly the amount lost, and it suggested in my mind at once that this committee had had some good statistician work it out so that the proposed reserve would exactly destroy that argument that the bank was going to lose in that case. That seemed rather strange—an instance of that kind—that one would offset the other. The gain exactly offsets the loss. Now, 10 per cent of capital withdrawn—$10,000—reduced the loanable funds $10,000, at a loss, we will say, at the same 6 per cent, of $600 a year. Well, if this new experiment is successful, they earn 5 per cent, which would be $500. The apparent loss in that case would be $100.

I did not check my figures up to see if I had omitted anything or not.

Senator POMERENE. Did you take into consideration the fact that when the national bank desires to issue its notes they must have United States bonds, on which they only get 2 per cent?

Mr. WELLS. You mean under the existing law?

Senator POMERENE. Under the existing law.

Mr. WELLS. No.

Senator POMERENE. And that as against that, with 10 per cent of the capital stock invested in a regional bank, they would have to get 5 per cent on that?

Mr. WELLS. No, sir; I did not take that into account.

Senator POMERENE. Did you take into consideration the fact that this bank may have a reserve in the form of a regional bank, to which they may take their securities and get currency whenever they are pressed for it and need it?

Mr. WELLS. That I purposely omitted from the fact. As I said to you. I doubt if that bank would be in a situation to take advantage of that.

Senator POMERENE. That is hardly a fair statement of the situation, is it? Assume your notes with the country bank now are six-months' paper.

Mr. WELLS. Yes.

Senator POMERENE. There is constantly a certain amount of that maturing.

Mr. WELLS. Scarcely. I think you have overlooked one statement that I made. I am only guessing now at my percentages, but I know that it was strictly true a few years ago, and I think it is true now, that 90 per cent of the paper of a bank is maturing on the 1st day of November or the 1st day of December each year, no matter when it was taken, and, as a rule, it was all taken during the previous fall, winter, and spring.

Senator POMERENE. Let us see what kind of bank you had in mind when you made that statement.

Mr. WELLS. I have the ordinary, common, typical country bank in mind.

Senator POMERENE. One that deals wholly with the farmers and farmers' paper?

Mr. WELLS. Oh, no. The truth is that is the bulk of the paper in these country banks in the Northwest.

Senator POMERENE. What portion of the paper is really farmers' paper, compared with merchants' paper or commercial paper?

Mr. WELLS. I remember at one examination of that particular bank, a few years ago, I found quite a surplus and no merchants' paper. The merchants were in very good condition. But had there been merchants' paper there, it would have quite likely found in the same condition as the farmers' paper, as the merchant looks to the farmers to pay him and to pay his notes.

Senator POMERENE. Do those small banks invest in paper such as Wanamaker's and firms of that kind issue at times?

Mr. WELLS. I tell you, it seems to me that those farm districts are very prosperous to assume that they have any more loanable funds on hand than they can employ right in their own neighborhoods. Occasionally they do have, and invest in the same paper as all concerns do.

Senator POMERENE. I wish you would be a little more explicit in stating what you mean by "country banks." Under this bill here we have been discussing central reserve banks.

Mr. WELLS. And country banks.

Senator POMERENE. Reserve banks and country banks, which includes all banks outside of central reserve in the reserve cities. Would you give the term "country bank" as broad a meaning as we have?

Mr. WELLS. Not at all. In speaking of a "country bank" in Minneapolis, of course we refer to those of country banks lying off in the farming districts.

Senator NELSON. With a small capital?

Mr. WELLS. With a small capital of $10,000 or $15,000, and occasionally we find one like the one I referred to, with a capital of $100,000. That is exceptional.

Senator POMERENE. Are you speaking of State banks or nationa banks?

Mr. WELLS. Country national banks.

Senator POMERENE. And do those country national banks ta farmers' paper for six to nine months in a year?

Mr. WELLS. Yes, sir; bushels of it. If they did not they wou go out of business.

Senator POMERENE. They do not do that in our section—oh withdraw that statement, but not to a very great extent. It is usua three to four months' paper.

Mr. WELLS. With the expectation that it will be paid at its piration?

Senator POMERENE. Oh, I could not answer that question. I not know.

Mr. WELLS. Or do they simply renew it at its expiration? I pends upon what the risks are. If it is horses and cattle, or lik grain crop, they might be able to pay more promptly—in the g growing regions.

Senator POMERENE. You are speaking of the conditions tha peculiar to your States?

Mr. WELLS. Well, to the Northwestern States. Several of in that group.

Senator POMERENE. You would suggest, then, that this li extended?

Mr. WELLS. The limit of time?

Senator POMERENE. Yes.

Mr. WELLS. I have not given that very much thought. I t expressed myself a moment ago as not dealing with that k paper. Perhaps it would be capable of such investigation spection, but any board that would have to pass on it, it seem that inspection would be perfunctory, and practically it would have to take the word of the country banker, and believe honesty of the country banker.

Senator POMERENE. There is another question I wanted to You made a statement a moment ago in answer to a questio of the Senators, to the effect that you had probably talked w 100 to 150 of these country bankers, and had not heard any press an opinion favorable to the bill?

Mr. WELLS. Yes, sir.

Senator POMERENE. How many of those bankers have bill?

Mr. WELLS. I could not make a guess at that. I did not question. I could not tell you.

Senator POMERENE. Was the sentiment which you have gi ance to here due to the fact that they had studied and unde bill, or was it due rather to the general objection that preva bankers that there should be no change in the banking syste

Mr. WELLS. Well, I do not think really that that sent vails among bankers. I think the general feeling amon of the country is that there should be a change.

Senator POMERENE. What change?

Mr. WELLS. Any change. The most simple form that vised, that will give to our currency elasticity, that, in ca

gency, will give us the funds that are required for the prosperity of the country. And I think the business men of the country, so far as I got their sentiment, do not want anything but that. They believe we have as good a banking system as there is in the world, if we can just get away from the hard and fast feature of it. They have not got the money when they want it.

Senator POMERENE. That is one of the things we want to provide for. Now, another proposition: Am I to conclude from your testimony here it is really your belief that this bill will restrict credits or contract them?

Mr. WELLS. I had a very valuable suggestion made by some gentleman a day or two ago. I asked him that question. He says, "I doubt if any member of this committee or any banker in this country has gone far enough scientifically to determine that question and give an absolute answer to it"; and the suggestion was made it might be a very wise thing if the right sort of experts could be found to take this thing through and, as far as possible, determine, if possible, whether it will result in a contraction or not.

Senator POMERENE. Mr. Wells, we have been trying to do that, and the great banker Forgan expressed the opinion that it would contract credits.

Mr. WELLS. I know; he told me that yesterday morning; but that did not convince me at all.

Senator POMERENE. And the comptroller, Charles G. Dawes, whom I know very well, expressed the opinion it would expand it.

Mr. WELLS. Yes. There you have it. It would seem to me that both men are absolutely honest and that Mr. Forgan may believe the banks would not avail themselves of the rediscount privilege and Mr. Dawes believes they would take advantage of it on a very liberal scale. I should say under this bill you might have any amount of expansion if the banks will avail themselves of the rediscount privilege. I tried to figure that out yesterday on the train, and I could not see but that the country would have an advantage under the rediscount privilege without there must be something wrong I had not discovered yet.

Senator SHAFROTH. You say, Mr. Wells, that you want elasticity of the currency?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. What is your theory as to how that elasticity would be obtained?

Mr. WELLS. As to the exact machinery that should be set in motion to accomplish that result I would not undertake to advise a committee that has given this so much thought. But, roughly speaking, my idea is that we should make the commercial assets of the banks the commercial paper of our banks, upon which our banking system to-days rests—it would be worthless if that paper is not as fine security as there is in the world—to make that the basis for currency. By reason of its being based upon this commercial paper it would automatically retire when the emergency was over, and it should be issued freely and almost without limit in times of stress, simply based upon that: and a very small and inexpensive machine might be set up here for the getting of the billions behind the paper that we require to do business with in those times.

Senator SHAFROTH. Would you enlarge the scope of the pape which would now form the basis of a loan from the regional reser bank?

Mr. WELLS. No, sir; I think not.

Senator SHAFROTH. The only thing would be that instead of t banks you would have the Government do it direct?

Mr. WELLS. No, sir; not of necessity. I am not going to expr any opinion as to whether I think currency ought to be issued banks or the Government. I do not care, because I believe it can made absolutely safe in either case, and I do not care whether Government does it or whether the banks do it.

Senator SHAFROTH. Then, as I understand, if you are not goin enlarge the character of the paper that is going to be the basis fo issue of this money, it is only as to the machinery you object to?

Mr. WELLS. Yes.

Senator SHAFROTH. Then, do you take into consideration that bill provides that national banks have a right hereafter to t mortgage upon real estate and relieve the farmers in that way one-year paper?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. That is a privilege which they do not hav

Mr. WELLS. No; and it would not be of any use.

Senator SHAFROTH. It would not be of any use?

Mr. WELLS. Practically. In my judgment, the farmer has for one-year paper secured upon his farm. He will take it u cattle or growing crops or without security, but upon his farm not do it.

Senator NELSON. It is generally for five years?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. You would not want national banks t deposits by making five-year loans?

Mr. WELLS. No, sir. I am not asking any expansion or ment of the paper. If you will just permit—if the country not compelled to come into the system, if you will abandon t scheme of the reorganization of our banking and currency sy let it rest where it is, with the additional provision that the cial paper found in our banks may be utilized as collatera issue of currency, in times of emergencies, the country fairly indifferent. He would not have the paper to put be and would not need it, because there is collateral enough t the city banks in this country in the case of the larger ban vide all the currency this country needs, and they would n the country bank at all. And if it is not forced into it, it is to it. If it can have currency when it wants it, it could get i larger banks.

Senator SHAFROTH. Then, as I understand you, you wo large the character of paper upon which this currency issued?

Mr. WELLS. I would not be willing to say that I would.

Senator SHAFROTH. It would appear the objection, the have, is that the banker has no representation in this mach

Mr. WELLS. Oh, no. That is not the principal one. only one I have undertaken to tell you of, perhaps, but th eral features in the bill that I do not approve of.

Senator SHAFROTH. You have stated from your figures the country bank won't have any the worst of it.

Mr. WELLS. I hope you won't think the figures are official, because I think I may have made some mistake in there.

Senator SHAFROTH. Oh, no; because we have gone over those figures right here, only with a bank of $50,000 instead of a bank with $100,000.

Mr. WELLS. And of $1,000,000?

Senator SHAFROTH. And of $1,000,000. Oh, they work out the same way, or nearly the same way. So that there is ultimately no loss to the country bank or the city bank; and the advantage he gains is by reason of having the reserve of 15 per cent, 9 per cent of which would be in banks, cut down to 12 per cent, with only 5 per cent required in bank, and thereby releasing that much more money than under the present law. It gives him an advantage that is about equal to his present conditions and the advantage, of course, in times of stress, times of crises, that he has a reserve bank he can go to, at which he can get money. And while he can have all the money of the bank, he would have to have paper to do that, but he will have some and relieve his conditions to the extent of the paper which he does have.

Now, I want to ask you as to the other objection you made, which was that there was no representation. There is a representation in the reserve bank, is there not?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. Three men are to be selected by the bankers?

Mr. WELLS. Yes, sir.

Senator SHAFROTH. And then three men are to be selected from agricultural and other interests?

Mr. WELLS. Yes. I think that is a very fair apportionment.

Senator SHAFROTH. Now, there are six men, and the other three to be selected by the board constitute the representation upon the board of the Government.

Mr. WELLS. Yes.

Senator SHAFROTH. Now, when a man goes to these regional reserve banks—that is, the bank he does business with and he does business with no other—he has a body composed of six men of his own choosing, as against three men of the Government's choosing, and surely that is a representation of him, if he is a banker. When he goes there, these bankers that are there and selected by the bankers will evidently look to his interests as against any oppression that the National Government might undertake to place on him, would it not?

Mr. WELLS. Yes; but they would be powerless as against the supreme power there—the Federal reserve board.

Senator SHAFROTH. You will find it is not contemplated that the individual bankers should have anything to do whatever with the reserve board.

Mr. WELLS. But the Federal reserve board, I understand, is supreme in control of the whole system, including the regional banks, the reserve banks.

Senator SHAFROTH. Certainly; that is true. There has got to be some kind of control over the reserve banks, but the individual banker does not come in contact at all with the reserve board. It is purely where there are disputes arise. It might be he might have an ap-

peal of some kind that the board did not treat him right; but ther are the six men, representatives of the bankers, to see that he wa fairly protected?

Mr. WELLS. But, Senator, we will assume now, our next admini tration was to be Socialist, for instance.

Senator SHAFROTH. Yes.

Mr. WELLS. Would you, if you knew that, and that the appoint power and control of the Federal reserve board was to pass into hands of that sort of administration, would you favor it or wo you feel—I have no right to ask you that question—would you lieve it would be possible for them to build up, out of that, a litical machine that would be greatly opposed to the substantial in ests of this country?

Senator SHAFROTH. I do not think they could. Men have go be controlled by law, and here is the law with relation to this ma and they are supposed to follow it. I am not going to sup people are going crazy, but that we are going to have patrio every business there is. Now, you take the Federal reserve b your objection can not stand good as to the regional reserve because the individual bankers have got two-thirds of that b Now, you take the upper board, and it is true there is no one t to be a banker upon that board. But do you know that the r of that is that the experience of all European bankers, the c banks, has been not to have a single banker upon their boa directors? That is the experience in every European bank.

Mr. WELLS. Are you quite sure in that, Senator?

Senator SHAFROTH. Yes.

Mr. WELLS. We do not call bankers here just what they cal ers abroad.

Senator SHAFROTH. I mean a bank that cashes checks. Y not find in the banks of Europe any person who is a banker board of the Bank of England, the Reichsbank, or the F France, and the reason is because the power to raise or lo rate of discount is vested in this central board, this reserve and the power to do that imparts a knowledge in advan when they will do it, and the raising or lowering of disc something that affects markets immediately. It produces boom in stocks if it is lowered, and it produces a decline if are raised. The result is that it gives a knowledge to a ban might be on the board by which his individual bank cou and the bankers do not want that. They say that is a advantage to the banker, and for that reason there never upon the Bank of England a banker in the sense of an of bank or a stockholder in a bank that cashes checks. Th reason; with that in view this bill has been drawn. It is n bankers; it is because bankers, in their wisdom in the othe the world, have come to the conclusion that the best men really those who are not bankers.

Mr. WELLS. Just a word in there, if I may ask a quest are getting pretty deep for me. I told you I was not a ba those countries to which you refer, does the Government of the private banks, all of the banks outside of the G banks, to contribute to the capital of that stock?

Senator SHAFROTH. As a matter of fact the central banks are the banks which relieve the other banks. The policy in providing for those banks is that they shall not be mixed up with the other banks, because they deal practically only with the outside banks. It was thought that for that reason bankers should not be upon this central reserve board, because otherwise it might result in favors being shown to a certain line of banks, or something of that sort. Mr. Morgan's bank might be preferred; Mr. Rockefeller's bank might be preferred; something of that kind might get into it. It is supposed that the merchant is the man who feels first the effects of a shortage of currency or of any inflation of currency. He feels, in the first place, the demands for cash for the bills which he has outstanding, and, second, he feels the first pulsation of a change in the money market, and naturally he would be the first to go to the bank and say "We want more currency; our commercial transactions indicate it." The requirements of a director of the Bank of England is that, first, he shall own stock to the extent of £500 and that he shall own a mercantile business of at least £100,000 or he is not eligible. The theory upon which those rules are made is that that merchant feels the impulse; he feels whether or not more money is needed or less money is needed; whether credit should be expanded or whether it should not be expanded; whether gold should be withdrawn or not. That is their theory for providing those rules. Now, I do not see that we will inflict harm or injury upon anybody by adopting the same policy with respect to that.

Mr. WELLS. I will tell you, Senator, with perhaps a slight amendment there you would remove a great objection to this bill. It is very evident that this committee has given great study and thought to this bill, but if you will just make it optional and permit us to come in if we wish, I think it will solve the difficulty. If it is such a good thing, if it will work such wonderful results for the banker and the people of the country, why not leave it optional? If he comes in voluntarily, he is going to feel much more satisfied than if he is lashed in, and if he is lashed in he is going to look for faults.

Senator SHAFROTH. Well, they do not have to apply for a charter for a national bank. He has a perfect right to go out of it if he wishes. He is not coerced. He can reorganize into a State bank and do the same business and keep his own customers.

Mr. WELLS. Well, I would not want to argue the question as to whether it would be a breach of faith in changing privileges which have been granted to the national banks and which have extended over a long period of time. If he goes out of it, if he exercises that option of which you speak and goes out of the system, he certainly has given up a valuable interest. A banking franchise, a national-bank franchise, with a well-conducted bank, having run over a period of years, is valuable, and if you are going to force him either to accept this provision of law or to make a voluntary sacrifice of his valuable franchise, I think it is hardly fair.

Senator SHAFROTH. Banks have already done that, particularly in some of the Western States, where they have found it to their advantage to go from a national-bank system to the State system. There has been no objection on the part of the Government to their withdrawal.

Mr. WELLS. This was optional; they were not forced to go out.

Senator SHAFROTH. It was optional with the banks, and it was also optional with the National Government. Now, when the Government gives that—the option of staying in on its own conditions or of going out of the system—you say it is a breach of faith. Why should that be a breach of faith? You have subscribed to all these things, and we want you to stay in there. When these banks have withdrawn from the national-bank system the Government has never adopted the position that it was a breach of faith on their part in doing so.

Mr. WELLS. If the bank goes on and exercises its privileges in fixed accordance with the law under which it is organized, could not a breach of faith be implied?

Senator SHAFROTH. Neither could it when we adopt the law we are considering. There is hardly a period of years which elapses——

Senator NELSON. If it is such a good thing why force them to go into it?

Senator SHAFROTH. We want one system. That is the reason. The question as to whether this is to be a universal or not, in my judgment, goes to the fact as to whether all the banks of the country are going to come into one system. I would like to see all the State banks come into the system. Of course we have no jurisdiction over the State banks.

Senator HITCHCOCK. Senator Shafroth, I want to call your attention to the fact that we have six gentlemen in this delegation. We have a New Yorker with us to-morrow and it is very important that we should soon get through.

Senator SHAFROTH. All right. I will not ask any more questions of this witness.

Mr. WELLS. Thank you, gentlemen. I am very happy to get through. I fear I have got into a position of a defender of banks.

STATEMENT OF CHARLES M. HARRINGTON, OF MINNEAPOLIS, MINN.

Senator HITCHCOCK. Please state your name, residence, and business, Mr. Harrington.

Mr. HARRINGTON. My name is Charles M. Harrington. I live in Minneapolis; I am a grain dealer and in the grain-elevator business. The companies of which I am an officer operate in about 300 towns where we buy grain from the farmers. We have large storage elevators in Minneapolis, where we store grain, with a capacity of 7,000,000 bushels, and we have 75 retail lumber yards where we sell lumber.

Before proceeding to a discussion of the banking and currency bill now before your committee, this delegation wishes to express its appreciation of the sincere effort that is being made to give this country a sound banking system, and its hope that it will be able through sound and constructive criticism to contribute to that end. We appreciate the great difficulties that surround this subject, and in the presentation of our views wish to make more clear, if that is possible, the effect upon commercial business of the provisions embodied in the bill.

In presenting the requirements of business in the Northwest, it is necessary to understand that we represent an agricultural country, the largest business of which is that of moving the crops. This move-

ment is of a seasonal nature, requiring a very large volume of money, perfect transportation, and perfect terminal and market facilities if farmers are to sell promptly at the world's prices and realize the maximum return upon their products. Of these products wheat is the principal item and may be considered as properly representing the movement of all cereal crops.

Wheat is sold by the producer for cash at his near-by railroad point. It is there received by line elevators, independent country elevators, or farmers' cooperative elevators for storage or shipment to the terminal markets, as the demand may indicate. The records of the railroad and warehouse commissions of Minnesota, North Dakota, and South Dakota show that there are 2,527 line elevators, 1,130 independent elevators, and 857 farmers' elevators, a total of 4,514 in these States. The managers of the 857 farmers' elevators companies claim to handle more than 50 per cent of the total grain purchased. The line companies largely center in Minneapolis, where the principal market is located and where the greater number of important grain and commission firms are likewise located.

Grain and commission firms largely finance the farmers' elevators in the country as well as many independent elevators. There are more than 90 firms or corporations in Minneapolis doing this kind of business. Farmers' elevators are usually financed by advances against bills of lading or on notes secured by the signatures of farmers—stockholders. The proceeds of notes or advances are used in the regular course of business for the purchase of grain coming in from the adjacent districts. Advances of this character represent a total of from $20,000,000 to $25,000,000 yearly, depending upon the amount of the crop and prices. This sum comes from Minneapolis houses in the grain business, who in turn borrow at Minneapolis banks, but are at the same time very heavy borrowers direct from Chicago, New York, and Boston banks, with whom they have their connections. Line elevator companies supply their various elevators with crop-purchasing funds and represent a very large element in the borrowing for the movement of the crop. Their financing is likewise done in part by Minneapolis and local banks, but largely through direct connections with Chicago, Boston, and New York banks. Country banks have but a minor part in the grain movement at the local points. Elevators not owned by line companies prefer to deal with grain or commission firms. Many independent elevators have the same preference. The amount of business left for local banks is comparatively small, and not being equipped or prepared to afford the special facilities required by the trade, notably at terminals, these banks do not participate to any extent.

Crop movement financing, therefore, falls almost entirely upon terminal market banks at Minneapolis and Duluth, and upon Chicago and eastern banks with which the grain commission and elevator firms have their own connections. The volume of these transactions and amounts annually required to move the northwestern crop are indicated by the following official Minneapolis Chamber of Commerce figures:

The Chamber of Commerce in Minneapolis is the grain-trade organization, and I speak of it not in the sense that the expression "chamber of commerce" is usually used in the East.

The receipts of wheat at Minneapolis for the 90 days from September 1, 1912, to December 1 following were 78,074,900 bushels, which, at 80 cents, represents $62,500,000. Country stocks of wheat on December 1, 1912, were 38,000,000 bushels, which, at 80 cents, represents $30,400,000, or a total paid out in cash to farmers to move their wheat during the fall period of $92,900,000.

During the second period, from December 1, 1912, to March 31, 1913, figured on the same basis, there was used an additional sum of $62,090,000. The same figures for the third period, from April 1 to June 30, 1913, represent a total of $22,650,000.

It should be borne in mind that this total amount, $177,640,000, is for the wheat crop only and but for one market. The average receipts for farm products in the three States is several hundred millions of dollars annually.

It is therefore apparent that any disturbance of the credit relations of the great grain markets will have an inevitable effect not alone on the delicate adjustment of market conditions but upon the prices realized by the farmer. Experience has clearly shown that it is the small market operator, the competitor of the larger firms, who sets the price. With his competition removed, through such a process as might hamper or restrict his credit, the market would be in the hands of the more powerful concerns, which through more important and more solid relations as borrowers, with great banks and financial institutions, would weather a period of restricted credit. The ability of the farmer to promptly sell at the world's price depends entirely upon the ability of grain commission and elevator companies to get credit and supply promptly the cash for local purchases of grain. We anticipate that the operation of this bill, as its provisions are outlined at the present time, would restrict this ability and produce such a period of restricted credit as is above referred to.

I am not a banker or interested in banks, and do not claim to be an expert financier. I will admit being a good borrower, as our companies borrow many millions of dollars each year. I have read the proposed bill and many comments upon it, and have heard it discussed, and I believe because of the loss of the savings funds for commercial purposes, the loss of reserve deposits from country banks, and the Government deposits that there will be a very great contraction of credit. The advocates of the measure will undoubtedly say that this will be offset by the ability of our banks to rediscount. A typical case will illustrate what condition might then arise. The probable loss of deposits of one representative Twin City bank which loans freely in support of the grain, lumber, and distributing business—as of the Northwest—will be $6,000,000, or about 25 per cent of its total deposits. This amount, less reserve held against it, represents $4,500,000 of loanable funds. This bank, to maintain unimpaired its present loaning ability, would be forced to carry at all times rediscounts amounting to $4,500,000 with the Federal reserve bank of its district. Such an amount is one and one-half times its entire capital stock. On such rediscounts the bank becomes responsible, and the loans to it by the Federal reserve bank become a lien upon its assets. It is very doubtful whether the directors or stockholders of this institution would permit the assumption of such a risk.

This same condition would prevail in all cases with Chicago and eastern banks.

We have gotten along very comfortably under the present system in spite of the occasional panics and pinches, and it seems to us that radical changes ought not to be made. If a law can be so framed as to give our currency elasticity, and a place provided for our banks to go to for help in an emergency, the business interests will be best served.

Senator BRISTOW. Take the restricted credits that you referred to. I understood that to be withdrawing of deposits.

Mr. HARRINGTON. That is one of them.

Senator BRISTOW. Which this would force from the banks that are now taking care of the business.

Mr. HARRINGTON. Yes.

Senator BRISTOW. So as to compel all business men who are getting these accommodations, as they are commonly called—I do not like that word myself; I do not think it is any more accommodation to the man that borrows the money than to the man who loans it. As a matter of fact the banker that loans the money gets his money back, and it is an accommodation to him to get the business; but that is the term the bankers use to make you feel that they are accommodating you, specially when they loan somebody else's money, and so I will use it. The business man who is accustomed to go to these banks to get the money would have to go to this reserve association.

Mr. HARRINGTON. If these same banks were to give us the same amount of money we would have no objection. The banks themselves would have to go to the reserve banks and indorse our paper, and we would rather hesitate to ask them to do that.

Senator BRISTOW. Would your paper be commercial paper under the common acceptation of that term?

Mr. HARRINGTON. Our paper is made in that form, but we usually borrow six months, and in borrowing in the fall we usually renew until May or June. We fill up our elevators in the fall when the grain comes in and sell the grain in the spring at the opening of navigation or later on when the mills want it. Our paper is never longer than six months, but it is frequently renewed for another six months, so we have the money all the year.

Senator BRISTOW. Do you ever pay off all your indebtedness to the banks, or do you carry an indebtedness right along?

Mr. HARRINGTON. We have several companies, and many of them pay their indebtedness every year in the summer. Between crops all of them reduce it, and at some time during the year they all pay up—all the grain companies.

Senator SHAFROTH. I want to ask you a few questions. You said:

> I have read the proposed bill and many comments upon it, and have heard it discussed, and I believe it will cause loss of savings funds for commercial purposes.

Wherein would there be any change in the national bank law with respect to that now under this bill.

Mr. HARRINGTON. As I understand the bill the savings deposits are to be segregated and used for loaning on real estate, etc. They would not be available for merchants, jobbers, manufacturers, grain dealers, and others. That is what I mean by that.

Senator SHAFROTH. Is not that practically done at the present time in the discounting of notes that are collateral—farm mortgages or securities of such kinds?

Mr. HARRINGTON. No, sir; I understand not.

Senator SHAFROTH. That is the first time I have heard that objection made, and I do not know the full force of it.

Mr. HARRINGTON. I think you will find that the national banks are only required to keep a reserve of 5 per cent on their savings deposits, and then they can use that money to loan to the grain concerns—speaking of our northwestern territory—to our millers, to our manufacturers, and jobbers, just the same as any other deposits.

Senator SHAFROTH. What proportion do the savings-deposit feature of the banks bear to the total amount of the business of the banks?

Mr. HARRINGTON. One of our members will speak on that subject; he has the figures. Personally, I can not give them to you.

Senator SHAFROTH. Well, at another point in your statement you spoke of the loss of reserve deposits from country banks. That is a matter of where you are speaking now of a city bank?

Mr. HARRINGTON. Yes, sir; we borrow our money in the Twin Cities, Chicago, Boston, and New York.

Senator SHAFROTH. And Minneapolis is bound to keep a reserve in Chicago or New York, is it not?

Mr. HARRINGTON. We borrow there, too.

Senator SHAFROTH. Yes; but the national bank of Minneapolis is bound to borrow there, is it not?

Mr. HARRINGTON. I do not know that they do.

Senator SHAFROTH. It is bound to keep a reserve there. It is bound to keep 12½ per cent there.

Mr. HARRINGTON. Yes.

Senator SHAFROTH. Now, then, it would not have to keep that in these banks in New York, because they could then go and keep 9 per cent with the national reserve banks, and thereby it would save 4½ per cent, would it not?

Mr. HARRINGTON. Would not they have that much less in Chicago?

Senator SHAFROTH. One of the objections which has been made among the people has been that too much of this money centers in New York, and that for that reason it is intended to relieve that situation and ease up the banks in the interior. The three reserve cities are St. Louis, Chicago, and New York. In the case of your Minneapolis bank it would gain actually by not having to put up more than 9 per cent, whereas now it has to send to Chicago or New York 12½ per cent.

Mr. HARRINGTON. That may be true. I do not dispute you.

Senator SHAFROTH. Instead of being at a disadvantage it would be an advantage to the Minneapolis bank, it seems to me.

Mr. HARRINGTON. Their losses there in the case I have cited are entirely from banks for whom their reserve agents——

Senator SHAFROTH. The Minneapolis bank would lose some by reason of these banks distributing to the reserve banks, but they gain by reason of not having to put 4½ per cent as much money in Chicago and New York as the present law requires, and that, I think, you will find is fully as much of an advantage as they have now.

Mr. HARRINGTON. It may figure so. I said in the beginning, you know, that I am not a banker.

Senator SHAFROTH. And you further stated that the Government deposit there will be a very great contraction of credit and loss of reserve in the deposits of the country banks and the Government deposits.

Senator NELSON. I suppose that will be covered by something said by some of these other gentlemen.

Senator SHAFROTH. All right.

Senator HITCHCOCK. Mr. Harrington, you estimate about $60,000,000 of the reserve deposits of country banks that a single bank in Minneapolis would be required to part with? Can you give an estimate of the amount of reserve deposits which all the Minneapolis banks could be required to dispense with?

Mr. HARRINGTON. No; there are two other banks of equal size there. There are about 18 savings banks of smaller institutions. It would be about $20,000,000.

Senator HITCHCOCK. If these national banks of Minneapolis are required to turn over this $20,000,000 to reserve banks of that district, do you know how those banks will go to work to secure the necessary cash for that purpose?

Mr. HARRINGTON. They would take notes.

Senator HITCHCOCK. That would produce a contraction of credit with the capitalists and would produce a similar contraction of credit in all the 50 reserve cities of the United States.

Mr. HARRINGTON. Yes, sir.

Senator HITCHCOCK. That is all.

Senator SHAFROTH. I want to ask you about your reference about the $500,000,000 to which you referred. Does not that constitute all of the deposits of the country's banks in the one bank?

Mr. HARRINGTON. No, sir; their deposits are $13,000,000, and an officer of the bank stated that they would undoubtedly lose half of that; and so, instead of calling it $6,500,000, I called it $6,000,000.

Senator SHAFROTH. There is no calculation which has been made as to the exact per cent there.

Mr. HARRINGTON. They went to the bank. They made a statement that there was $13,000,000 of that sort of deposits in one of the banks, and I think probably that would be at least one-half.

Senator SHAFROTH. This country bank, however, instead of depositing that $6,000,000 with a private bank in Minneapolis, would deposit that money in the Federal reserve bank in Minneapoils.

Mr. HARRINGTON. If they went in.

Senator SHAFROTH. If they went in. Then the money would be still there, and the right to get it out by the Minneapolis banks or any other bank would be there by borrowing on collateral, would it not?

Mr. HARRINGTON. I have stated so; but I doubt if a bank would want to go in there and indorse the paper of their customers to the extent of $6,000,000.

Senator SHAFROTH. They do not have to do it.

Senator NELSON. They have to do it to get the currency, don't they?

Senator SHAFROTH. That is all true; but it is the individual bank, the country bank, that indorses the paper. He does not go to the city bank and get it to indorse the paper for him. It is simply the

one bank that indorses the paper. If they would do it in one instance, it seems to me it could be done in another instance.

Senator BRISTOW. The Minneapolis bank is going to use the same process that the country bank would.

Senator SHAFROTH. Certainly it would, but it has the collateral there. It has this commercial paper, which it can present there and get currency, and put that currency in circulation, and it will permeate to all parts of the country.

Senator BRISTOW. But it has to get it just as the country bank would.

Senator SHAFROTH. Certainly; the Government is not going to give it to him.

Senator HITCHCOCK. Your point is, Mr. Harrington, that you think it doubtful whether this particular bank, in order to secure the $6,000,000 which it would part with, would be required to indorse $6,000,000 of good commercial paper and discount it with the reserve banks?

Mr. HARRINGTON. That is the idea.

Senator HITCHCOCK. And you doubt whether the bank would care to indorse $6,000,000 of paper?

Mr. HARRINGTON. I doubt if they would be willing to do it. Of course, it would make no difference to us.

Senator O'GORMAN. Do you think a bank would hesitate to indorse good and merchantable paper when the paper was so good that it would be prepared to discount it itself and get the money into its vaults?

Mr. HARRINGTON. I do.

Senator O'GORMAN. Why?

Mr. HARRINGTON. Because it is contrary to all good banking under the present arrangements.

Senator O'GORMAN. This system contemplates the change.

Mr. HARRINGTON. Under the new system, if it should become popular, they might do it. Perhaps they will do it. I hope they will do it, because we will have to do business under this new system.

Senator O'GORMAN. It is conceded at the present time that rediscounting is regarded as poor banking, but if you assume that this legislation will lead to a change in that respect among the bankers of the United States, then the objection you have just pointed out would fall?

Mr. HARRINGTON. Certainly; if we get the same amount of money it would make no difference.

Senator BRISTOW. Is it not a fact that this bill will force either a change of the practice or result in the contraction which you suggest?

Mr. HARRINGTON. Yes.

Senator BRISTOW. It is regarded bad banking to be hawking your paper around and selling it. The customer does not like it and the bank does not like it. It is proposed by this bill either to compel the banks to do that or it will result in a contraction of the credit.

Senator SHAFROTH. Let me ask you one more question. Is not the difference between whether the Minneapolis private bank discounts this paper or the Federal reserve bank discounts it—is not this an advantage in favor of the discounting by the Federal reserve bank, and that is when you deal with the Minneapolis private bank all that it does is to settle differences between customers and the bank

itself; whereas, in addition to the Federal reserve bank doing that same thing there is an element of increasing the currency which goes into the hands of the men—the country bank and the business which it does, and it increases the circulation and thereby makes times better. Yet you ignore that great advantage in your discussion of this question with relation to the discounts to be made with the private bank of Minneapolis and the Federal reserve bank of Minneapolis.

Mr. HARRINGTON. Perhaps I have, sir.

STATEMENT OF MR. F. E. KENASTON, OF MINNEAPOLIS, MINN.

Senator HITCHCOCK. Mr. Kenaston, please give your name and your business to the stenographer.

Mr. KENASTON. I live at Minneapolis. My business is manufacturing, principally agricultural implements, threshing machines, and farm tractors.

The volume of our business approximates between $4,000,000 and $5,000,000 a year. Our type of goods is sold on credit to farmers on long time. Consequently we have to borrow a good deal of money to carry farmers' notes, occasionally, when they can not pay for one reason or another. We have to borrow for the purchase of material of several months in advance and for our pay roll during the manufacturing season, and for ordinary expenses.

We do our business chiefly in the Northwest, where grain raising is the whole business of the farming community, except perhaps some stock raising. So far as it applies to our business, it is all grain raising. We have only one period of debt paying in the Northwest, and that is during the fall of the year, some time when the farmer markets his grain. Our borrowing begins, perhaps, in March and extends through the season until the 1st of September. Our collection season begins in September and ends the latter part of January. It is our main collecting season.

Second, we have to borrow practically on a period covering nine months. Now, we sometimes come very near paying all of our debts up by the first day of January, and we would do it probably every year were it not for the fact that the exigencies of the market conditions respecting steel and iron material, and sometimes lumber, make it necessary for us to buy in a year's supply in advance and have it come in the fall months. That material we use in the following year's business, so that our business overlaps from one year into another, and January finds us sometimes owing quite a bit of money. Generally speaking, however, our loans will have to run over a period of nine months.

Our arrangements for borrowing are such that we can borrow a large percentage of our requirements any time in March or later on, prepayable during the months of October, November, and December, which enables us to cover our borrowing by repayment that year.

A good deal has been said about the restriction of credit. There is just where, under this bill, our credit is restricted. The banks with whom we do our business in Minneapolis, Chicago, and New York have known us for a great many years. They have extended us loans—something was said about accommodations. I have felt sometimes as though it was an accommodation. I have gone to banks to

borrow money at times when I thought it was a big accommodation to get the money. Of course I pay for it, but at the same time I regarded it as an accommodation at that time. At other times, perhaps, it was an accommodation for me to take the money.

But we have had a sort of mutual growth up there in the Northwest—most of the banks, most of the business men, gentlemen who are here to-day, who have lived there most of their lives. They have grown up with the banks, and there is a mutual understanding and mutual respect among them. We like our bankers in Minneapolis. they are good men to go to for counsel, and they are always ready to help us, and they are always ready to promote anything which seems to be worthy in the shape of any enterprise that goes there; and to that extent we have faith in our banks, and we want to see them prosper.

Under your bill here, if you will permit me to read from it, you are—I hope you will pardon me also if I ask a question or two, because I would like to get some information myself. As I was saying, such paper as we put is restricted to 90 days. You might just as well say to us, "Get off the earth." We can not give the bank in Minneapolis or any other place our paper, which they can in turn take to a regional bank and get it rediscounted, simply because we can not borrow under six months at a time. It is true you may give three months' paper and renew, but I want to tell you that when you give a three months' note time flies pretty fast, and a man gets old. It is not good business, and no scrupulous man is going to give short-time paper when he knows he can not pay it at maturity. Something may intervene.

You have provided here, under certain conditions, for 120-day paper—four months. That is no better in our business. [Reading:]

Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinbefore described having a maturity of more than 60 and not more than 120 days when its own cash reserve exceeds 33⅓ per cent of its total outstanding demand liabilities exclusive of the outstanding Federal reserve notes by an amount to be fixed by the Federal reserve board, but not more than 50 per cent of the total paper so discounted for any member bank shall have a maturity of more than 90 days.

Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based on the exportation or importation of goods and which mature in not more than six months and bear the signature of at least one member bank in addition to that of the acceptor. The amount so discounted shall at no time exceed one-half the capital stock of the bank for which the rediscounts are made.

It has occurred to me that that is a rank discrimination against all domestic business in this country. I can not understand why we people who have gone out into the West, who have been frozen in the winter and who have been baked in the summer, who have made that country smile as a garden—why we should be discriminated against.

This is a measure which fits business of New York City, which fits the business of New Orleans dealing in the cotton crop. Why should not we be treated just as well in the Northwest as those people are treated in these particular things? I submit that to you, gentlemen.

As I stated before, we have, through long years of experience, established our lines of credit with our own banks, and now we feel perfectly safe in conducting our business. In my line of business I

have got to buy and manufacture one year in advance. If there is no crop raised in the Northwest next year, I will not sell my goods, and I have got to carry them over. But the nature of the business is such that we have got to build and put the money into them.

I go to my banker and I offer him my paper. He knows when I can pay it just as well as I do myself. He says: "I am sorry we can not use that paper. We are loaned up just as close as we can and we have not any other paper that we can substitute and take yours on for three months until we can slip out into this under the 90-day maturity clause, and consequently we can not deal with you."

That is one of the things that restricts credit, in my judgment. It is the disrupting, the overturning of a system under which we have grown up, which we understand, and which we believe in, and have faith in, and, so far as I am personally concerned, I think that the business conditions—the banking conditions—of this country to-day do not need very much tinkering with, except to make the bankers behave themselves. I think if the business is conducted along the lines laid down in the present national bank act, that the country is safe enough.

Speaking for our own Northwest, I was interested in what one of the Senators said that he heard from some gentleman in New York. I can say, from personal knowledge, Senator, that the Northwest is fundamentally all right. It has got assets in sight to-day that would astonish you if you would go up there and go through the country. We have magnificent crops of all kinds of cereals, we have got plenty of stock, and our people are in good financial condition. I do not believe that conditions, fundamentally, were ever better in the Northwest than they are to-day, and there is a great deal of business. The volume of business that is being done is larger than ever before, and it would continue to grow, would grow a great deal faster, if it were not for this eternal desire to change, to get something new, to bring in some new sort of legislation which many people who are honest enough in their beliefs think is going to do an immense lot of good.

We do not feel that we need anything up there. We think that we are all right. We hear the banks talk about this matter a great deal, and we know that the banks would like a place where they could go in an emergency, such as, for instance, 1907, and get some ready money to tide them over a period when many people are frightened. That is all it amounts to. There is just as much money in the country the day after the panic as there was the day before, but it is down in the people's stockings. What we want more than anything else is to instill a little confidence into the people. If you can make them feel that the business conditions are all right and that the most of the people in the country are honest and trying to do business, we would not have as many panics as we do.

As to this bill, we all have a right, of course, to object; that is the great American prerogative.

There are a number of injustices which I think are apparent and which have been discussed so much that I do not believe I will dwell upon them. The matter of enforced contribution to the capital of these regional banks seems to me to be rather un-American. It may be all right; it may be necessary; but it hardly seems to be in line with the Golden Rule. The payment of interest on Government

deposits, an obligation that is placed on these proposed regional banks, as against an absolute refusal to pay interest on other people's deposits I think is another discrimination. I do not think that is right.

The provisions for this advisory council I was going to speak of. but Mr. Wells has given you my ideas fully. I concur in everything he said, so I will pass that.

We believe that this reserve board mentioned in this bill is clothed with such extraordinary powers and authority that it gives to the administration which happens to be acting an opportunity and a power, so that if they want to punish anybody they can do it. The overlordship which is assumed is a thing which is very diffiuclt for the average American to swallow, because it is not fair play. The man who invests his money with you in business ought to have a little to say about it; at least he ought to have the privilege of making you listen to his advice and have you recognize him as an adviser.

I want to say a word on the open-market operation——

Senator SHAFROTH. What page?

Mr. KENASTON. On page 27:

That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills and bills of exchange of the kinds and maturities by this act made eligible for rediscount and cable transfers.

May I ask some Senator to tell me what is meant by "prime bank ers' bills" in connection with this measure?

Senator HITCHCOCK. I suppose Senator Weeks, who is a banker, would be able to elucidate that. We have been discussing that very thing here, with not very good results.

Senator NELSON. I should say, but of course, I may not be correct, that there are two classes of bills classified here—commercial bills and finance bills—and I take it that it probably refers to commercial bills drawn against bills of lading for products, merchandise—I should call that prime bills; but I am not quite sure whether it would not include what is called "finance bills," which are not drawn against—you know the difference and what I mean?

Mr. KENASTON. Yes. I have heard the name "prime bankers' bills" in connection with English bankers, but it is a new term here and I did not know just what was meant by it. I have asked a good many people, and they seemed a little at sea.

Senator NELSON. I may say, that in London, for instance, there are what they call "accepting houses" or "firms," and bills are drawn here in this country upon those firms and accepted by them, and they pass current, but they are called "finance bills," and are not that grade, I think. They all depend upon the solidity of the accepting house and the drawer. They are not that grade of commercial bill.

Go on, Mr. Kenaston.

Mr. KENASTON. Further, I would like to ask whether in the opinion of the Senators this section 15 permits the Federal reserve bank to deal direct with individuals; and if so, whether it is the intention of the Federal reserve board to so act and do business with individuals, in competition with the ordinary banks which have contributed the capital to the Federal reserve bank.

Senator HITCHCOCK. No; that is not contemplated. The Federal reserve bank does no business except with member reserve banks and other reserve associations.

Mr. KENASTON. How about this section 15, Senator:

That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open maket, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount and cable transfers.

Senator NELSON. That allows them to go outside the banks.

Senator HITCHCOCK. That must be a new provision of the bill; I do not recall it. I suppose it is intended for foreign business particularly.

Senator REED. That is foreign business.

Senator BRISTOW. Does it say "foreign business"?

Mr. KENASTON. "Domestic or foreign."

Senator BRISTOW. Domestic or foreign.

Mr. KENASTON (reading):

Domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange——

Senator BRISTOW. That puts the reserve bank into the business directly, does it not?

Mr. KENASTON. I beg your pardon.

Senator BRISTOW. That puts the reserve bank into the business directly. I had not noticed that.

Mr. KENASTON. That was the interpretation that we have placed upon it, but we were not just satisfied, and that is the reason for my inquiry. I do not think I have anything further to say.

Senator HITCHCOCK. Mr. Wingo, of the House committee that first passed upon that bill, tells me that that was inserted for the purpose of enabling the reserve bank to enforce the discount rate by going into the open market and establishing the rate which it had made. I was not familiar with it at all. Have you anything further, Mr. Kenaston?

Mr. KENASTON. No.

Senator HITCHCOCK. Senator Nelson, have you any question?

Senator NELSON. No.

Senator HITCHCOCK. Senator McLean, have you any?

Senator MCLEAN. No.

Senator HITCHCOCK. Senator Bristow, have you questions that you desire to ask?

Senator BRISTOW. As I understand, none of the paper which your firm signs—the credits which you have—could be used by this reserve bank as the basis for currency except as it approached maturity, within 90 days?

Mr. KENASTON. Yes, sir.

Senator BRISTOW. What is the aggregate volume during the year of the paper that your concern would have out?

Mr. KENASTON. Our maximum borrowers—that is, the high point—is about $1,500,000.

Senator BRISTOW. Have you studied this sufficiently to state what per cent of the bank credits in your section of the country is such paper as would be available for this rediscount?

Mr. KENASTON. I do not know of any mercantile, or what we call "commercial," paper, Senators, that is issued by any of the larger

concerns in Minneapolis under less than six months' maturities. That is the common and customary way of putting out paper.

Senator NELSON. By the jobbers and wholesalers?

Mr. KENASTON. By the jobbers, wholesalers, grain dealers, and manufacturers.

Senator BRISTOW. The great mass of the paper which is contemplated as the basis for this currency is in the commercial centers and the seaport cities, is it not?

Mr. KENASTON. The great mass of paper that is issued in Minneapolis?

Senator BRISTOW. No; the mass of paper that is contemplated to be used in this bill as the basis of currency is usually in the commercial centers. like New York?

Mr. KENASTON. That is simply my deduction from a reading of the bill, that the gentlemen who are the drawers of your bill are familiar with trade conditions in New York City, New Orleans, and seaport places, where there is a lot of this foreign exchange——

Senator NELSON. Short-time paper?

Mr. KENASTON (continuing). Exports and imports are being made, where bills of exchanges would run anywhere from 60 days to 6 months.

Senator BRISTOW. As I understand, in your judgment the bill is drawn very largely to fit that condition of credit?

Mr. KENASTON. That is my judgment.

Senator BRISTOW. And that the amount of credit of that character as compared to the total bank credit of the country is very small, is it not?

Mr. KENASTON. I am not prepared to say, sir, but I should think so. The manufacturers all over the country, so far as I know—and I have read over a great many brokers' lists of paper—put out paper at six months' maturities, and I do not know of any shorter borrowings in the usual way of doing business.

Senator BRISTOW. What do you think of a proposition to retire all of the national-bank notes that are now in circulation, some $730,000,000 or $740,000,000, and substitute a currency based wholly upon this 90-day paper?

Mr. KENASTON. Well, Senator, frankly, I will say that I think we would be making a mighty poor swap.

Senator BRISTOW. You are not a banker, though. Is there a banker in this delegation?

Senator NELSON. He knows something about the banking business.

Mr. KENASTON. I have been inside of a bank several times——

Senator NELSON. Have you been in the banking business?

Mr. KENASTON. But not with a jimmy. [Laughter.]

Senator BRISTOW. If you have been in the banking business, there is a question I want to ask you.

Senator REED. Are you a banker?

Mr. KENASTON. I have been in a small way, in a country bank, a great many years ago.

Senator REED. Are you interested now in any bank?

Mr. KENASTON. Yes, sir.

Senator BRISTOW. It has been said here that the country bank that has its reserve—9 per cent of it in the city banks—getting 2 per cent on that, would be favored because it could reduce the amount from

15 to 12 of its reserve, and the amount which it had to carry locally would be reduced from 6 to 5 per cent, and that the gain which it makes by this reduced reserve could be taken to the Federal reserve bank and could be loaned and notes taken, and then it could take those notes to the Federal reserve bank and get currency and thereby make more out of that surplus than it is able to get now by getting only 2 per cent on it, and that it releases Government bonds which it now holds which draw 2 per cent, and can invest them in commercial paper, and if need be rediscount commercial paper and get the currency to loan. As a matter of fact, when that bank takes this surplus upon which it has been getting 2 per cent and invests it in notes, and rediscounts those notes for currency, does it not depend wholly upon the interest that it has to pay for the currency as to whether or not that is a desirable transaction?

Mr. KENASTON. I think I heard you ask practically the same question of one of the other gentlemen. Have you connected up the terms of the Government bonds with this question?

Senator BRISTOW. No; I referred to them, but I will not connect it. Just deal now with the reserves, and then we will take up the bonds later.

Mr. KENASTON. Well, I can deal with that in this way, but if I was running a country bank I would not rest easy nights with 12 per cent reserve.

Senator BRISTOW. That is just the point I wanted to get out. Would you rest easy nights if you only had 5 per cent of your deposits in cash in your vaults?

Mr. KENASTON. No, sir.

Senator BRISTOW. Do not the country banks carry a great deal more than 6 per cent cash on hand as a rule?

Mr. KENASTON. Yes; as a rule they do.

Senator BRISTOW. When they get down to 6 per cent they get nervous, do they not, until they get it above the 6 per cent mark?

Mr. KENASTON. Yes, sir.

Senator BRISTOW. Do you believe that they should carry any less money in their vaults if that reserve were reduced from 6 to 5?

Mr. KENASTON. The prudent banker, I do not think, would ever let his reserve get below 20 per cent in the average country bank.

Senator BRISTOW. So this reduction from 6 to 5 is of no advantage whatever, then, to the country banker?

Mr. KENASTON. It is an advantage to them if they want to take it, but it is an unsafe advantage. It is a speculation, as has been said here by Mr. Wells, who knows about the country banks, as he was for a great many years in that western country. Of course, conditions are a good deal different now from what they were, but he knows the situation, and the character of loans that a country bank makes to the farmers. They have to deal with the farmers and must depend upon the farmer to pay it before they can pay the banks. A loan is made to the farmer, and while the money is perfectly good—you know you can make him pay if you force him—but in his mind his note to you is not due until he gets ready to pay it. He will pay you some time in the fall. He has got to get it out of his crops. There are a great many things that come up between the harvesting and the thrashing and the marketing of grain—bad weather, bad roads, sickness in the family, and all that sort of thing; and he will

not permit himself to be jogged out of his regular rut. He will sell his wheat and will pay you when he gets ready, but he will usually pay you. He will usually clean up before the first of the new year. You are pretty certain to get the most of your money, and what you do not get then you have got to wait on him until the fall.

Senator BRISTOW. If your bank takes that man's note to this regional reserve bank and hypothecates it for currency, and a payment is demanded when it is due, the banker gets into trouble with his customer, does he not?

Mr. KENASTON. Immediately. You can not treat your customers that way, because they do not understand you. They have not a commercial training that many people enjoy. The better off a farmer is, the worse he is. He says:

> I am all right. What are they worrying about? They know that I am good for it.

Senator REED. In other words, it is not so much a lack of commercial training as it is the natural independence of the man himself?

Mr. KENASTON. Well, a little of both.

Senator BRISTOW. If he is good and the bank is willing for him to later pay it when he can sell his crop at the most advantage to him, why should we enact a law to disturb that condition that has grown up and that is entirely satisfactory to both parties?

Mr. KENASTON. Senator, I really do not know myself why you should.

Senator BRISTOW. I guess that is all.

Senator WEEKS. Were you in business in 1907?

Mr. KENASTON. I was.

Senator WEEKS. Did you have to borrow money during the panic?

Mr. KENASTON. I could not. [Laughter.]

Senator WEEKS. What did you do?

Mr. KENASTON. I can explain the situation to you so I think you will understand it.

The panic struck us at a period of greatest possible prosperity. I never saw collections coming in any better than they did in my life at that time up in the Northwest; and we had a lot of paper coming due, as we always do.

Senator NELSON. Farmers' paper?

Mr. KENASTON. Yes, sir; farmers' paper; and we had a lot of paper that we had to pay, Senator, coming due in October, November, and December—a lot of it. There was a period of, I guess, about two weeks—was there not, Mr. Wells?—in which a farmer could not sell a bushel of wheat and get any money for it; and we all wrote letters and published it broadcast that if they would ship their wheat down to Minneapolis and turn it over to any of our good friends, we would take their checks; if necessary, we would take 36-day checks.

We got things started up in about two weeks, so that wheat began to come in and we began to do business in that way, only in the place of money we had wheat checks, and we accepted them and eventually got our money. It was good all the time. It was simply a question of somebody having to wait. And finally, I think it was the 26th day of October, the heavens fell, and between that date and the 1st day of January, my concern collected over $100,000 from the farmers, which enabled us to pay our debts.

Senator WEEKS. How did they get the money—the farmers, I mean.

Mr. KENASTON. They got checks and one thing and another.

Senator WEEKS. You collected it in checks, not money, then?

Mr. KENASTON. The business was handled by a check system, largely, until later on, you know, the banks opened up.

Senator NELSON. There were a great many small country banks that never suspended.

Mr. KENASTON. Oh, there were a lot of country banks that never heard of the panic and kept doing business right along.

Senator NELSON. In my town we had three banks and they never suspended a moment, but ran open shop.

Senator WEEKS. Do you not think, Mr. Kenaston, that it would have been of some advantage to you and to the whole situation if your Minneapolis banks had had such a reserve as is provided for in this bill? That is, to go to some place and get some additional circulation?

Mr. KENASTON. Yes; I think it would; but I think the greater advantage would have been if the other fellow had gone there and got it first and had given to the Minneapolis banks the money that belonged to us and which we had a right to demand. During the panic, Senator, the banks in that city of Minneapolis were running stronger than they are to-day. Is not that so, Mr. Wells?

Senator NELSON. Yes.

Mr. WELLS. They could not get the money out of their eastern correspondents.

Senator NELSON. Their reserves were tied up in New York and Chicago.

Senator WEEKS. We all assume that the system is bad, that it leads frequently to trouble; and that is one of the reasons why legislation is being proposed. It is not necessarily the fault of the New York and Chicago banks, because they receive credits and are asked for circulation when it comes to a time of necessity. If they had to pay out in circulation all the money that has been deposited with them in the form of credits, why of course it would break every one of them. We want to correct that system.

Mr. KENASTON. I think it would be a measure of safety; it would be a great thing for the country, and if it were only advertised so that the country knew what it could depend upon, I do not suppose they would ever avail themselves of it. If there were some place where, in times of stringency, the banks could go and get money on their assets temporarily——

Senator WEEKS. There is a place, now.

Mr. KENASTON. Mark you; temporarily.

Senator WEEKS. There is a place, now.

Senator REED. But there was not in 1907.

Mr. KENASTON. The act creating that expires soon, does it not?

Senator WEEKS. Yes.

Senator SHAFROTH. Next year, in June.

Mr. KENASTON. But I believe that if there were any place provided where the banks could take certain of their assets under certain requirements of safety and go and get money to tide them over temporarily, it would be a splendid thing, and I believe that the Government, if it issues this emergency currency, could charge a large enough rate

of interest on what is outstanding to make it absolutely necessary to return it at the earliest possible moment.

Senator WEEKS. Do you not think that charging a rate of interest of any size on circulation is a tax on business?

Mr. KENASTON. Yes; it is.

Senator WEEKS. You are going to put that tax on business?

Mr. KENASTON. It is, in my opinion, a tax on business—and I think it should be taxed, because this emergency never arises unless business is partially to blame. We overtrade, we overmanufacture, we do more than we ought to, and pretty soon there is a failure here and another one there, and everybody gets scared, and then comes your panic. All you need is to have currency enough to tide your good institutions over during the period of this ghost dancing among these people who get scared.

Senator WEEKS. You are not here to oppose any legislation, are you?

Mr. KENASTON. No, sir; I am not here to oppose any legislation.

Senator WEEKS. You are here to ask us to consider this thing with thoroughness, so that when legislation is finally put on the statute books it will be beneficial to the business interests of the country.

Mr. KENASTON. Beneficial to the business interests of the country; that is it exactly, Senator; and if I could have my way about it and if I did not feel it would be presumption on my part, I would say—well, I am going to offer the suggestion, anyhow.

Senator REED. Go ahead, you have got as much right as anybody else to have an idea.

Mr. KENASTON. If you gentlemen had all traveled the length and the breadth of this country, through the West and the Middle West, from North to South, you would all see the country and see the conditions and see the people. The people are all in sympathy with you. They want to do everything that is possible. There is nobody that is rabid. They all want the best that can be had, but we want it to come right, and we want to have the privilege of saying so to you when we think it is not right, and what we think is the matter with it.

Senator HITCHCOCK. Have there been any mass meetings out there for the purpose of asking Congress to do this thing in 15 minutes?

Mr. KENASTON. Oh, no, sir; no, sir; we people believe in making haste slowly, because this is a very important question, and if it is not adjusted right it is going to be very serious. It will bring a very serious trouble to the country.

Senator WEEKS. It is true, is it not, Mr. Kenaston, that this affects the manufacturer and the merchant and the farmer even more than it does the banks?

Mr. KENASTON. Yes; because the banker can call in his loans.

Senator WEEKS. Ordinarily, he can take care of himself?

Mr. KENASTON. Ordinarily, he can take care of himself; and the man who has built up his business, either as manufacturer or jobber, with the expectation of borrowing a certain sum of money every year to carry on his regular volume of business is the man who is going to suffer.

Senator WEEKS. Then, we ought to take into consideration all these commercial interests quite as largely as we do the interests which are directly affected?

Mr. KENASTON. Yes; I think that every interest should be considered together. Of course, there is a very close alliance between the banks in our section of the country and the business interests, for the reason that I stated a few moments ago. It is a big proposition with us right along.

Senator REED. What has been the extent of your banking experience; just briefly?

Mr. KENASTON. About 31 years.

Senator REED. And you are connected with some banks now?

Mr. KENASTON. Yes, sir.

Senator REED. What banks?

Mr. KENASTON. I am connected with banks at Breckenridge and Barnesville and Campbell, Minn., the old county where I used to live. Senator Nelson can give you the names of some of the banks.

Senator NELSON. They are all little country towns.

Senator REED. I am trying to put into the record these matters of interest and experience, because, of course, the greater experience a man has had, and the character of it, necessarily has some effect upon the judgment that he may form and the value of that judgment. That is all. I am not challenging you at all.

Senator NELSON. All of those towns that he named are towns that do not exceed 2,000 people, I think.

Mr. KENASTON. That is right.

Senator REED. Are you only slightly interested, or have you been considerably interested in banking?

Mr. KENASTON. I was considerably interested in those banks. They were my pets in early days.

Senator REED. And you are still interested in any other banks?

Mr. KENASTON. Oh, yes; I have bank stock in a number of banks.

Senator REED. In large banks?

Mr. KENASTON. Yes.

Senator REED. Where are they located?

Mr. KENASTON. Minneapolis.

Senator REED. Are you slightly or considerably interested?

Mr. KENASTON. Well, I suppose it would be considered slightly interested.

Senator REED. Are you a director in any of those banks?

Mr. KENASTON. Yes, sir; I am a director in one of them.

Senator REED. Which bank is that?

Mr. KENASTON. The Northwestern National.

Senator REED. Have the officers of your banks, or any of them, had any consultations in regard to this bill and talked it over with you and the other officers?

Mr. KENASTON. I have never had any consultations with them at all.

Senator REED. Have you talked it over?

Mr. KENASTON. I have heard them pass their opinions of it, and I have passed my opinion; but we have never had any consultations.

Senator REED. Are any of these gentlemen who have come down here with you in this delegation interested in banks?

Mr. KENASTON. Yes; I think they own stock in pretty much all of the banks up there; that is, some of them do—a little stock. Our bank stock is pretty well owned at home.

Senator REED. Have there been some consultations up there among the bankers about this delegation coming here?

Mr. KENASTON. Oh, I do not think so.

Senator REED. How did you all come to get together at one time?

Mr. KENASTON. Well, these gentlemen here are Mr. Mosher, who is secretary of the Citizens' League of Minnesota, which I understand to be an association looking to currency reform. I am not a member of it; but I understand that those are its functions. Mr. Mosher called me over the phone and asked me if I would not come down here with some gentlemen that he was trying to get to come down—some business men to look over the situation; and that is the reason I am here.

Senator REED. That is the way it was brought about?

Mr. KENASTON. Yes.

Senator REED. I am not in any way criticizing the fact that you came in that way or in any other way. As far as I am concerned I am very glad you did come. I am very glad to have you express your views and I am interested in it. I do not care how citizens come, only I wanted to know just how it happened.

I want to enlarge just a little bit upon one point that you brought out. When the panic of 1907 came, you say that the banks, and business generally, were prosperous in Minneapolis and St. Paul?

Mr. KENASTON. Yes, sir.

Senator REED. That was true of the entire State of Minnesota, was it not?

Mr. KENASTON. Yes.

Senator REED. With your experience and business knowledge, perhaps, you can answer this question, whether that was not true of the great agricultural belt of what I will call the Central West, embracing Minnesota, North and South Dakota, Missouri, Kansas, Iowa, Nebraska, Illinois, and that great rich country in which we raise the wheat and corn, largely, of this country?

Mr. KENASTON. The Mississippi Valley?

Senator REED. Yes; the Missouri and Mississippi Valleys.

Mr. KENASTON. Yes.

Senator REED. That was true?

Mr. KENASTON. I think it was.

Senator REED. Was there more money in the banks than there ordinarily was?

Mr. KENASTON. I believe at that time there was more money in the banks than usual.

Senator REED. And people were actually able to pay their debts, if business was uninterrupted, with as great facility as at any time, almost within your recollection, were they not?

Mr. KENASTON. Yes, sir.

Senator REED. The granaries and elevators were full of grain; the cars were standing loaded on the tracks, and moving by, and you could not get cars to haul the great crops of that year. That is the fact, is it not?

Mr. KENASTON. Yes, sir.

Senator REED. The first evil portent that you noticed was the fact that down in New York interest rates on call loans had gone up to abnormal heights, was it not?

Mr. KENASTON. I did not pay much attention to that.

Senator REED. You did not notice that?

Mr. KENASTON. I did not pay particular attention to interest rates, although I think, since you recall it, that interest rates did go up very high, something like 20 per cent, or somewhere along there.

Senator REED. If the banks in Minneapolis and St. Paul—I speak of them now because you are familiar with them—could have obtained their money which they had deposited in various banks in the East——

Senator O'GORMAN. Are you including Chicago in your question?

Senator REED. Yes; the banks east of you, which would include, of course, Chicago and any of the greater banks that lie toward the east—if they could have obtained their money that they actually had, they would not have had a bit of trouble, would they?

Mr. KENASTON. If we could have obtained our money from our reserve agents in the East, as we wanted to, and as we usually did, there would not have been any trouble.

Senator O'GORMAN. Where was most of your money; in what reserve agencies?

Mr. KENASTON. I do not recall, sir.

Senator O'GORMAN. I think one of the preceding witnesses said a large part was in Chicago.

Senator NELSON. No; not to-day.

Senator SHAFROTH. Then, he refers to——

Senator REED. Regardless of just what banks it was, they had deposited not only reserves, but balances in various banks, some of which were of course in New York City. The New York City bank, having failed or having reached the point of exhaustion where it could go no further, sent word to your banks that it could not permit or was unable to comply with the withdrawal of money?

Mr. KENASTON. Could not furnish currency; it could furnish credit.

Senator REED. Do you remember what it was that finally brought that period of suspension of payments to a close? Do you remember that Mr. Morgan obtained from the Federal Treasury a large sum of money?

Senator O'GORMAN. About $40,000,000.

Senator REED. About $40,000,000, and took it down to New York, and that that day the banks were able to resume payment?

Senator NELSON. They did not resume until a long time after that.

Senator REED. They began to resume, I mean.

Senator NELSON. No; not right away.

Mr. KENASTON. I think that had a tendency to stop it.

Senator O'GORMAN. It did stop it.

Mr. KENASTON. But the payments of currency did not begin until later on.

Senator REED. I have heard so.

Senator NELSON. The suspension was over two months.

Mr. KENASTON. About six weeks.

Senator REED. That was the first relief they obtained. If that sum of money could have been made twice as much, the probabilities are that the banks would have been able to have opened at once, would they not?

Mr. KENASTON. Yes, sir; of course if you get a large enough volume of money into a bank on which there is a run, it is simply a

question of time until the run will stop and the bank will begin to build up again.

Senator REED. If there had been a machinery created at that time by which banks could have taken Government bonds, State bonds, prime municipal bonds—by which I mean bonds of municipalities that were undoubtedly good—farm mortgages that were undoubtedly good and commercial paper that was undoubtedly good, and not only went to a dozen banks, if necessary, having indorsed and guaranteed all of it and put a man on the cars and sent him over here to Washington with that and obtained from the Government Treasury gold or gold certificates or silver certificates or greenbacks, bank notes, that paper issued by the Government upon its faith and its credit, there would have been no trouble at all, would there?

Mr. KENASTON. No; I do not think so. I think that that would have cured all the trouble.

Senator REED. It would have given instant relief by applying the remedy to one point in the country, to wit, New York City?

Mr. KENASTON. Yes, sir.

Senator REED. Because New York City could have instantly relieved Chicago and St. Louis, and that would have relieved the entire chain of banks all over the United States. That is true, in your opinion?

Mr. KENASTON. Yes, sir.

Senator REED. Then the matter of giving relief at that time to banks—in the time of emergency—is not after all so complicated a thing, is it?

Mr. KENASTON. I do not think it is complicated at all. The chairman of our committee, Senator, will have the pleasure of addressing you on that same subject later, and I believe you will be glad to listen to him.

Senator REED. I shall be glad to listen to him. You have studied, Mr. Kenaston, this bill, you say, with some care. I want to ask you if under this bill there is a single new dollar added to bank capital except that which the Government may add?

Mr. KENASTON. I do not see any——

Senator REED. Of course, to follow that out for a moment——

Mr. KENASTON. If I understand your question rightly.

Senator REED. I will ask it a little more in detail. If you go to organize a regional bank, the capital it has subscribed is not new money, but it is taken from the deposits of the member banks; is not that true?

Mr. KENASTON. Yes, sir.

Senator REED. The reserves which the various banks deposit with it are taken out of the coffers or vaults of the banks and simply transferred from the vaults of a member bank over to one common center?

Mr. KENASTON. Yes, sir.

Senator REED. There is no new capital there. The bank has no power to issue money under the law, but it can take its assets and go up to the Federal Treasury, or go to the Federal reserve agent, and can have money that has been printed by the Government of the United States; so the first addition it gets of new money—or currency, if anyone objects to the term "money" being misused—comes from the Federal Government, does it not?

Mr. KENASTON. Well, the discounting bank—that is, the bank that goes with the notes to the Government bank—simply goes there and

trades a note against Van Dusen, Herrington & Co. for a note of the United States, which, perhaps, he would rather have than Mr. Herrington's note.

Senator REED. But that thing of value, whether we call it money or an exchange or credit, whether we call it currency, or whatever it is, is a thing of value in the hour of stress?

Mr. KENASTON. Yes.

Senator REED. And that comes from the Federal Government?

Mr. KENASTON. Yes.

Senator REED. The Federal Government takes its money out of the Treasury, and under the terms of this bill may take practically every dollar out of the Federal Treasury that it has now and every dollar that it may hereafter get, and deposit it with these banks, whether it wants to do it or does not want to do it. It is a willy-nilly proposition; and when the Government does that and puts its money in there are new assets added to the banks, but, of course, a debt of the banks.

Mr. KENASTON. No new money added; it is new money put in circulation.

Senator REED. Yes. So there is not, under this whole system, a means provided for adding one additional dollar of value to the banking capital of the United States, is there?

Mr. KENASTON. No; there is no increased money.

Senator REED. And no credit and no money can be obtained in the hour of necessity in addition to that which we now have, except what is furnished by the Federal Government. That is the situation, is it not?

Mr. KENASTON. Yes, sir.

Senator REED. I want to ask you if you do not think it is entirely possible to devise a plan by which the independent bankers of the country, each acting upon his own initiative, can, in case they desire help, go to the Federal Government direct for that help instead of being obliged to go to get whatever help they may desire through a machinery such as is contemplated by this bill?

Mr. KENASTON. Unquestionably that should be done.

Senator REED. Well, is it not desirable that it should be done in that way, instead of through an elaborate machinery of this kind?

Mr. KENASTON. Well, if you will let me qualify my answer a little——

Senator REED. Certainly.

Mr. KENASTON. I believe it will be a very easy matter to devise a method by which the country could be relieved in the stress of an emergency by a very little machinery, and by a very short bill. But I believe that I would so arrange it that the clearing-house banks, or perhaps a group of the larger country banks, might be included, who should examine, pass upon, and approve, under their official stamp, the securities that would be brought down here to Washington to get money.

Senator REED. That is because you want a local institution?

Mr. KENASTON. Yes.

Senator REED. And local guaranty?

Mr. KENASTON. We want a local guaranty; we want to make the Government absolutely safe, so that there could not be any criticism—no losses and consequent criticism—and let these larger banks take care of the wants of the smaller ones, which they are always willing

to do. That would reduce the number of banks with which you would have to do this kind of business, and at the same time serve all of them.

Senator REED. Now, I want to get your opinion on this, whether it is desirable to take the local banking capital away from local points. and center it at some given bank or point that may be many miles away—even hundreds of miles away.

Mr. KENASTON. There may be times when a bank located in a certain locality may have an excess of funds that it can not loan in that locality, and in order to make reasonable earnings for its institution it has got to seek an outlet.

Senator REED. Well, I was speaking not of that, which is merely a business transaction.

Mr. KENASTON. Yes.

Senator REED. But I am speaking about a plan which compels the banks, the small banks of Minnesota, whether they want to do so or not, to take 20 per cent of their capital and 5 per cent of their deposits and put them over in a reserve bank, which is established at some distant point—whether that would injure the local business?

Mr. KENASTON. I think it would injure the local business, and I do not think it would work out well at all. I think that a little bit of the number of banks that would be required to fill up the capital necessary to organize, for instance, a Federal reserve bank in the city of Minneapolis—and you have got to take in a pretty big territory, gentlemen, you have got to go clear around into Montana and Washington, and you have got to get money from those people to bring down there; and it is a long way from home. They do not care anything about it. They would not do any business with a Federal reserve bank in 100 years, because their business is all centered together in those extreme western places.

Senator REED. Do their currents of trade naturally run to Minneapolis?

Mr. KENASTON. Oh, they do business—you could go out there almost anywhere in Montana and the greatest amount of their deposits are kept at Helena. Helena does the business for Montana; that is, the Helena banks. Now, the Helena banks, in turn, keep their reserves, we will say, in Minneapolis, St. Paul, and eastern cities.

Mr. WELLS. And in Omaha, St. Louis, Kansas City, and Denver.

Mr. KENASTON. Yes; in all those cities.

Senator REED. Then, in that section of the country, I take it, that if you establish this reserve bank at St. Paul and compelled the bank at Helena to put in 20 per cent of its capital and 5 per cent of its assets into that bank—and did the same thing, now, with all the other national banks out in that section of the country, you would force them to make this contribution all to St. Paul or Minneapolis, although a large portion of their business traveling along the natural currents of commerce would go to Chicago?

Mr. KENASTON. Certainly, and go to Helena, Omaha, St. Louis, and points——

Senator REED (interposing). Omaha and St. Louis——

Mr. KENASTON (continuing). And points where they naturally do their business, their trading.

Senator REED. So that is another difficulty, at least to be considered; is it not?

Mr. KENASTON. Yes.

Senator REED. Now, the Federal Government has already established reserve banks, and has some 40 or more?

Senator WEEKS. Forty-eight.

Senator NELSON. Forty cities.

Senator SHAFROTH. Forty-seven.

Senator NELSON. Forty-seven cities, and three central reserve cities; but there are many banks in these cities.

Senator REED. Well, that is what I meant to say. I meant to say cities instead of banks. That system has been gradually extended.

Mr. KENASTON. It has grown up with the country.

Senator REED. And it seems to be a necessary thing to have that money in these reserve cities in order to properly distribute——

Mr. KENASTON. Well, it is a matter of convenience.

Senator REED. Yes.

Mr. KENASTON. And the speedy handling of business.

Senator REED. Now, it is proposed to practically wipe out that system, as I understand it, and bring it to 12, and some bankers want it brought down to 5, and then some other bankers want it brought to one city. Do you think that would be a wise thing in this country?

Mr. KENASTON. Do you mean to eliminate the reserve cities and handle all that business through the proposed Federal banks?

Senator REED. Twelve banks.

Mr. KENASTON. No; I do not think it would be a good plan. In the first place, it would take too long to convert the exchanges of the country into real money. These large bankers tell me that they have in their transit account, traveling back and forth over the country, in process of collection, millions upon millions of checks, drafts, and exchange of that sort that is constantly out, on which they get nothing at all. Now, the farther that stuff has to go, the longer it takes to get them returned.

Now, the district of country that you have just been speaking about—Mr. Harrington gives me the information that the district in the Northwest is 1,700 miles east and west and 400 miles north and south.

Senator POMERENE. What district are you speaking of?

Mr. KENASTON. Speaking of the district west of the Mississippi.

Mr. WELLS. Excuse me—the district which the Federal reserve bank located at Minneapolis would have to cover in order to provide the capital required in this bill to organize a Federal reserve bank.

Senator REED. What is the size of that, again?

Mr. WELLS. Seventeen hundred miles by four hundred miles.

Mr. KENASTON. Seventeen hundred miles east and west and four hundred miles north and south.

Senator REED. Can you gentlemen not readily see that in a little district like that, personal inspection and personal knowledge would be easily acquired? [Laughter.]

Mr. KENASTON. Well, we are all honest out there; do not have to be inspected. [Laughter.]

Senator REED. I do not think I want to ask any more questions.

Senator HITCHCOCK. Senator Pomerene, have you any questions to ask?

Senator POMERENE. No. I did not have the pleasure of hearing the witness's statement.

Senator HITCHCOCK. Senator Shafroth, have you any?

Senator SHAFROTH. Yes. Mr. Kenaston, you said that your paper was six months' paper?

Mr. KENASTON. Yes.

Senator SHAFROTH. And nearly all the paper of the manufacturers and of the merchants was six months' paper?

Mr. KENASTON. Yes.

Senator SHAFROTH. And you therefore fear that the banks would not have enough paper of the kind prescribed in the bill to get relief from the Federal reserve banks?

Mr. KENASTON. Yes.

Senator SHAFROTH. Do you not overlook one thing, and that is that at least half of this paper would, on the average, be available under the bill?

Mr. KENASTON. Why?

Senator SHAFROTH. Because 90 days would have expired, and then it is perfectly legal for the bank to use that paper for the purpose of getting relief from the Federal reserve bank under the bill.

Mr. KENASTON. Yes; but they have not got any.

I go into a bank some day and I want $200,000. I have got to pay for a cargo of steel and iron coming through the Lakes. I say I go to a bank and want $200,000 very often—not so very often, but I have done it when I needed it to make a payment on a purchase of material. They say to me, "How soon can you pay that?" I say, "Well, I can pay you that"—we will say it is in April; navigation is open then. We will say it is the middle of April. I say, "I can pay you that money back one-half of it in October and one-half in November." That is beyond six months.

Now, I can borrow in that way under the present conditions. Now, if you will tell me how I can do it under this proposed system, I will be very glad to have you do it.

Senator SHAFROTH. Oh, you can just keep on doing it the same way you do now. But those notes become available to take to the Federal reserve banks and get the relief which they desire after such a length of time as has expired as to make it 90-day paper.

Mr. KENASTON. Yes.

Senator SHAFROTH. Now, if the Minneapolis bank had to discount all this paper, then there might be some very serious objection. But when you consider that it is a very little amount of money that is necessary to relieve the situation, it becomes a different problem. You take, for instance, the questions that were suggested by Senator Reed, in which he said that $40,000,000 deposited by the United States Treasury in the New York banks stopped the banks, but that $40,000,000 more would have permitted the payment of moneys in the usual and ordinary times.

Now, comparing that $80,000,000 with the total amount of credits that are outstanding, and you have a contrast of $80,000,000 with $20,000,000,000, and consequently there is very little money needed in this bank or any bank that has to be taken to the reserve bank in order to relieve the situation.

Do you not think that the Minneapolis banks would have of the paper that was available under this at least 10 or 5 per cent that would be such that they could discount it without any question?

Mr. KENASTON. Senator Shafroth, you have got right down to the point now, as to how business is done on credit. There is very little money to do business, because it can all be done on credit. But the moment you begin to shorten the term of your credits you restrict them. The credit becomes shortened——

Senator REED (interposing). You said, if I understood you correctly, that the moment you limit the use of credit you made your——

Mr. KENASTON (interposing). The moment you reduce the length of credit—that is, you shorten it up—then you reduce credit itself, because credit, like everything else, has to be placed in accordance with its abilities to take care of itself. Do you gather what I mean?

Senator SHAFROTH. Yes, Mr. Kenaston. Now, you take in a section of country like ours, where our credits have all run for a great many years on a six months' limit, and sometimes a little longer, but no shorter than six months. Do you not see that when you come to contract that credit to three months you are cutting down the abilities of the people who utter this paper to make good when it comes due?

Senator SHAFROTH. But there is no——

Mr. KENASTON (interposing). And you are putting yourselves and your banks in a hole in attempting to——

Senator SHAFROTH. But there is no requirement that this money—that this credit that the Minneapolis bank extends to you—should be within 90 days. Now, let me illustrate my point——

Mr. KENASTON (interposing). Yes; I know your point. Now, if you will just let me go a step further. If you will remember, I said that our section of country up there was a seasonable country?

Senator SHAFROTH. Yes.

Mr. KENASTON. We can only collect money once a year, and that is during the marketing season in the fall, when the crops are being sold and money paid off, and people mean to have their settlements completed about the 1st day of January.

Senator SHAFROTH. Yes.

Mr. KENASTON. Now, the borrowings begin, we will say, at that time, and everybody wants to borrow in the same way. Well, what are you going to do? We will say that the banks up there have got in the neighborhood of $60,000,000 of loans.

Senator NELSON. More than that. There are three big banks that have that amount.

Mr. KENASTON. I am speaking of the three big banks. They may have to-day $70,000,000 of loans. And I will guarantee that the great bulk of that stuff—$60,000,000 of it—is six months' paper.

Senator MCLEAN. Does not most of it become due either in October, November, or December?

Mr. KENASTON. Yes.

Senator MCLEAN. Then, you have in the spring——

Mr. KENASTON. Yes; but I am saying now when that paper was taken.

Senator MCLEAN. Yes; I know——

Mr. KENASTON (continuing). I will guarantee you that there is $60,000,000 of it that went into the banks as six months' paper.

Senator MCLEAN. Well, a large per cent of it would then be 90-day, and so available for that currency just when you want it.

Mr. KENASTON. I will qualify that statement as to the amount by saying that it is about $60,000,000.

Senator NELSON. How much?

Mr. KENASTON. About $60,000,000 in the three banks.

Senator NELSON. $60,000,000; yes. I think that is right.

Mr. KENASTON. I will say that when that paper went in there there was $50,000,000 of it that went in as six months' paper.

Senator MCLEAN. In the spring the demand for credit is at a low ebb—that is, for cash—is it not?

Mr. KENASTON. In the spring?

Senator NELSON. No; it is plentiful then.

Senator MCLEAN. The demand for currency is great, then, is it not?

Mr. KENASTON. No; you are mistaken as to that in our country. That is true in some places, but in our country it is different.

Senator MCLEAN. You want your credit in the spring; but your demand or the press for currency is in the fall, to move your crop, is it not?

Mr. KENASTON. Well, that is when it requires so much currency——

Senator MCLEAN (interposing). And would not a large percentage of this paper, if it goes out in December and January, be at that time 90-day paper, so that it would be available?

Mr. KENASTON. No; the grain people can handle their cash grain on very little money; that is, very little borrowing. It is the stored wheat that they are carrying over until May and June that they want to borrow money on. That is why they borrow money for six months.

Senator MCLEAN. Yes; you want to get your credit then; to sell your notes then. But the point I wanted to inquire about is whether it would not automatically, this system as is proposed in this bill, provide a large amount of paper, which at that time would have less than 90 days to run—just at the time when the press for currency is greatest, so that it could be used?

Mr. KENASTON. You could do that very conveniently by shutting off sufficient of your customers and telling them "We have taken on all this six months' paper now. If you will wait six months, we will let you have that money that you want"—by fixing the amounts that they would take during this three months' period and being very careful in their mathematical calculations respecting that they could undoubtedly do it.

Senator REED. Well, let me inject at that point the statement that that would be putting your banks in a position where they could occasionally and at intervals get advancements from the reserve bank.

Mr. KENASTON. Yes.

Senator REED. Whereas in the country where they did business—where they did business on short time—and did it as a matter of choice, as for instance, New York City, they would have a constant flow of this paper into their vaults, and they could have the advantage of this bill all the year around. You would get it occasionally.

Well, now, that is just in consonance with what we have been experiencing in most legislation of this country for about 40 years, is it not, that the big fellow down East was fixed up to suit him, and you people up in Minneapolis——

Mr. KENASTON (interposing). Well, you are trying to reform us just now, are you not?

Senator REED. I am just asking you whether you ought to be satisfied if you get a "look-in" somewhere around the corner?

Mr. KENASTON. We are very well satisfied, so far as that is concerned.

Senator HITCHCOCK. Senator Shafroth, would you prefer to continue your questions this afternoon, or to resume to-morrow morning?

Senator SHAFROTH. I would like to finish this afternoon, if I can.

Senator HITCHCOCK. When Senator Shafroth has finished, we will take a recess until to-morrow morning.

Senator SHAFROTH. Now, your idea is that this paper for these loans all falls due about the same time?

Mr. KENASTON. Not all the same time.

Senator SHAFROTH. But nearly all falls due about the same time?

Mr. KENASTON. Because they will perhaps be coming in all the seasons of the year, but they are six-months paper.

Senator SHAFROTH. Well, then, half of the paper will be eligible to go to the reserve banks and be used all the time under the bill.

Mr. KENASTON. But we can never tell whether that is so or not. There will be some of it——

Senator SHAFROTH (interposing). Well, unless it is all due at certain times that would seem to be the case.

Mr. KENASTON. But you have established a maximum time of maturity under the bill.

Senator SHAFROTH. Yes.

Mr. KENASTON. Beyond which you can not take any of this paper to the reserve bank.

Senator SHAFROTH. But every 6-months paper gets to be 90-day paper, at some time, does it not?

Mr. KENASTON. You are guessing altogether too much, it seems to me, because you can not depend upon the conversion of six months' paper into three months' paper by any way you can figure it, and at the same time accommodate your customers in the way you want to.

Senator SHAFROTH. If the bank wants to take paper out for 6 months, at the end of 90 days, it can use it. Now, I want to call your attention to this, that these loans fall due in January, and that there was an excess of loans——

Mr. KENASTON (interposing). But we were talking about the country banks.

Senator SHAFROTH. Well, take the country banks—I understood you to say the Minneapolis bank. But here is a report of the Comptroller of the Currency for the fiscal year ending June 30, 1912. Take all the Minnesota banks, together, outside of the city of Minneapolis, and you have on the 5th day of December, 1911, loans and discounts:

Loans and discounts	$82,000,000
On Feb. 20, 1912	81,000,000
On Apr. 18, 1912	84,000,000
On June 14, 1912	85,000,000
On Sept. 4, 1912	86,000,000

Now, there is hardly any variation; there is not a variation of more than 3 or 4 per cent at any time.

Mr. KENASTON. I suppose you are aware of the fact that the banks, when they have a surplus of money that they do not want to tie up on long-time loans—for instance, in January, they will want this money in February or March; they hunt up some man that is willing

to borrow a little money of the bank for 30 days. That all goes in as "loans and discounts" just the same. You can not count that as local loans.

Senator SHAFROTH. Well, I do not think there is much paper of that kind floating around. They generally put it in reserve banks or in their corresponding banks.

Mr. KENASTON. There is a great deal of that.

Senator SHAFROTH. Now, I notice here, "Due from national banks," "Due from State banks," and "Due from reserve agents," and they vary a little; but they do not vary as much as 3 per cent during those dates.

Then you take the Minneapolis banks, and the amount which they had in loans and discounts was, on—

Dec. 5, 1911, was	$53,000,000
Feb. 20, 1912	52,000,000
Apr. 18, 1912	52,000,000
June 14, 1912	53,000,000
Sept. 4, 1912	57,000,000

Now, there is very little variation in that.

And then, "Due from national banks," and "Due from State banks," and "Due from reserve banks," which, tabulated, make a change of not more than 3 per cent at any time.

Now, that being the case, shows, does it not, conclusively, that there is paper in that bank, to a large extent at least—I will say 10 per cent of its paper that at all times would be available to carry to the reserve banks?

Mr. KENASTON. Ten per cent of its paper?

Senator SHAFROTH. Yes.

Mr. KENASTON. Very likely.

Senator SHAFROTH. Well, does it not show——

Mr. KENASTON (interposing). Wait just a moment, please. Very likely that is true, 10 per cent of it.

Senator SHAFROTH. Yes.

Mr. KENASTON. But you will notice from the very levels under which those reports are made there that those banks are carrying—that whenever they accumulate a little more cash than they need they invest it in something that will be payable in a short time, 30 days or 60 days, at a low rate of interest.

Senator SHAFROTH. Well, that 30 or 60 days is good for this very thing, is it not, under the proposed bill?

Mr. KENASTON. That is done so that they can rely upon getting it when the money is needed for some purpose. That is why they remain upon such an even level.

Senator SHAFROTH. That is the very reason there would be so much more that could go to the reserve banks and furnish the basis for getting the money.

Now, I want to call your attention to the fact that there never will be a demand for 10 per cent of the loans of the banks on the reserve bank, and I will tell you why. The total credits of the country are $20,000,000,000. Ten per cent of that would be $2,000,000,000. Nobody will say that any emergency on earth could not be stopped for $200,000,000, and consequently you will never have occasion to take from the reserve bank more than 1 per cent of the loans and discounts of a bank, and consequently there are ample loans to obtain the re-quired amount.

Mr. KENASTON. Well, I do not know. That is problematical.

Senator NELSON. You are assuming there that the condition of the banks all over the country is the same.

Senator SHAFROTH. Well, you will take one bank and it will relieve another. A New York City bank, as Senator Reed has shown distinctly, will relieve the entire situation.

Senator REED. But, Senator Shafroth, are you not overlooking this? You establish your reserve bank. The banks in Minneapolis carry down their 10 per cent of their capital and put that in. That shortens them up that much. They take down 5 per cent of their deposits and put that in.

Now, they want to get it out. It is recognized here on every hand that the banks will almost immediately borrow back from the central reserve bank the moneys they have put in. Now, when they go to borrow that money back they have to incur either their own direct obligation or they have to put up paper, or both, which meets the requirements of this law; and they have got to put up either their own paper, which is short-time paper, or they have got to put up the notes of other people that is short-time paper.

Now, if they put up their own notes, which are short-time paper, and then their money in the course of business up there is long-time paper, you have crippled that bank in its ability under that system to meet its obligations. I do not say it is impossible to meet them.

Now, compare the condition of that bank with a bank down East, where they do business on short-time paper, where it is all on that basis, and you can manifestly see how this system would be unjust to the bank at Minneapolis in comparison with the bank of New York or Boston or Kansas City or St. Louis.

Do you think we ought to be making a system of banking that interferes with the course of trade?

Senator SHAFROTH. The difficulty with your proposition is, you are assuming it is going to be large amounts, enormous amounts, and it is going to cripple the banker. It does not cripple the banker any more under this new system than it does under the old system. The country gets the amount of loan reserves reduced from 15 to 12 per cent, and from 9 to 5 per cent in other banks. You will find it is a very insignificant amount. It does not have it put out of its reach. It does not have as much money under this new system as it does under the system now.

Consequently, that being even, say, you then come to the question whether or not you have enough notes, mortgages, and discounts in your bank, coming back in time of stress, to borrow money on—and it will not take over 1 per cent to do it in order to relieve the situation. One per cent would make it at least $200,000,000, and $200,000,000 of currency put into this Nation at one time, or within a period of a month, would relieve any stringency on earth, and if it were 5 per cent it would be a billion dollars of currency thrust into the Nation.

Senator NELSON. But you must remember, Senator, this scheme involves the elimination of the national-bank notes, and you must have some currency in place of it.

Senator SHAFROTH. Of course you know my position on the national-bank notes. I hope it will be taken care of in full, legal-tender United States notes.

Senator REED. Let me show you where I think your argument fails. You contend that if the bank already has 10 per cent of paper that is short enough in its time so that it could be used, that is all it needs. Now, one bank has got 10 per cent of that kind of paper and here is another bank that has 100 per cent, and you make a system for the 100 per cent bank.

Senator SHAFROTH. No; you do not. Either bank can come in and demand the amount of currency it wants.

Senator REED. Exactly; but you make a system one bank can comply with and the other can not—that is, one has got all of its assets for emergency use and the other only has 10 per cent it could use.

Senator SHAFROTH. If it is all there when you need it, it has.

Senator REED. It has not been developed that this 10 per cent is, any part of it, prime commercial paper of the character that is attempted to be described in this bill. I do not think it has described anything, but they have attempted to put a limitation upon paper by limitations. One is the time it runs; the other is that it shall be prime commercial paper, which some witnesses have undertaken to say is an acceptance, should be limited to an acceptance, representing an actual shipment or purchase of goods, and others have widened that description and said that it can represent, perhaps, something outside of that. But you have your prime commercial paper.

Senator SHAFROTH. Yes; but the gentleman's very statement in regard to his borrowing 200—or going in and saying he wants to make a purchase of $200,000 worth of goods, or worth of lumber, or whatever it is, shows his transaction comes directly within the definition of prime commercial paper.

Senator REED. No; it does not. I do not think you can take that illustration which was used to assert a particular idea and say that means the paper in the bank is of that kind. I take it the paper in the bank may represent a farmer's note. Is not that true?

Mr. KENASTON. Very often.

Senator REED. It may represent the note of a man that is building a business block or putting up a factory or engaged in any one of the thousand things you engage in.

Mr. KENASTON. Yes.

Senator REED. So it does not follow your 10 per cent of paper that is within 40 days or 90 days is commercial paper.

Senator SHAFROTH. Don't you think of a million dollars of loans and discounts there would be at least 10 per cent that would be available?

Senator REED. Decidedly; but I think that you are creating a system—you are a banker and I am a banker, and you create a system which I can use every day in the year with all of my paper, because I have that paper to the amount of 100 per cent, and you only have 10 per cent you can use that way, and I will skin you to death.

Senator SHAFROTH. No you won't, because you will only use this in case of an emergency.

Senator HITCHCOCK. If Senator Shafroth is through with Mr. Kenaston we will take a recess until 10 to-morrow morning.

(Thereupon, at 5.45 o'clock p. m., a recess was taken until to-morrow, Wednesday, September 24, 1913, at 10 o'clock a. m.)

X

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 14

[Printed for the use of the Committee on Banking and Currency]

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1913

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman*.

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

WEDNESDAY, SEPTEMBER 24, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10 o'clock a. m.

Present: Senators Hitchcock (acting chairman), Reed, Shafroth, Pomerene, Harris, Nelson, Bristow, McLean, and Weeks.

Senator HITCHCOCK. Mr. Kenaston, Senator Bristow has a few questions he would like to ask you.

Senator BRISTOW. I was interested, Mr. Kenaston, in a suggestion that Senator Reed made last night, and your response to it, in regard to individual banks, or groups of banks, in the various sections of the country going direct to the Treasury and getting this currency upon their assets, the same as the regional banks would go and get it; and in that way avoid the general tariff on the banking and credit system which the creation of this new organization would bring about.

Some of us have felt that if we could have the banks vested with a certain legal right to hypothecate certain kinds of securities for currency in time of need, and have them taxed, so that when the pressure of business were over the currency would automatically retire itself, it would be far better than to create this—what we regard artificial and unnecessary—machinery.

The criticism has been made that the plan suggested would not be practicable, because it would not be practicable for the Comptroller of the Currency to deal with so many units—these banking units. And your suggestion that groups of banks might be organized within the States, or within certain territories, so as to give an added security—all of them assuming responsibility with each other for this currency—I should like to ask you about that. About what sized groups do you think would be necessary, from your business experience, if such a plan as that should be worked out?

FURTHER STATEMENT OF F. E. KENASTON, OF MINNEAPOLIS, MINN.

Mr. KENASTON. Well, in the Northwestern States they have associations of banks, group associations, that meet occasionally to discuss their own affairs; and offhand I would suggest that these banks be grouped in much the same manner.

There could be the bank in one congressional district, perhaps, where the bankers would get acquainted with each other, and that acquaintance naturally would bring a certain degree of confidence between them, and they would work together, perhaps, more comfortably, more satisfactorily for that reason.

Of course, the western country is a country of large distances, and I should think that these groups ought to be placed so that they would be located conveniently together, as much so as possible. I think the banks might be classified as to their size, their capital stock, so that each group would be practically on the same plan of interest.

Senator BRISTOW. How many groups are there in the State of Minnesota in these bankers associations?

Mr. KENASTON. I do not remember the number of groups, Senator Bristow; but there are quite a number of them—I think there are nine.

Senator BRISTOW. Nine groups?

Mr. KENASTON. Yes; nine groups.

Senator BRISTOW. That is practically one for each congressional district?

Mr. KENASTON. Practically so; yes.

Senator BRISTOW. I think we have four out in Kansas; that is, one for every two congressional districts.

Mr. KENASTON. Yes.

Senator BRISTOW. These bankers meet once or twice a year, or periodically, at least, and discuss conditions in their section of the country.

Mr. KENASTON. In their immediate section; yes, sir. And they are usually grouped together with reference to the same class of business. For instance, the banks in a mining section of country would perhaps naturally be drawn together, and those in a grain-raising section of country would be drawn together.

Senator BRISTOW. Senator Reed, I want to invite your attention to this.

Senator REED. I am listening.

Senator BRISTOW. The suggestion of Mr. Kenaston is very interesting to me about forming these voluntary groups. Now, State and national bankers meet together there, do they?

Mr. KENASTON. Yes; State and National bankers meet together.

Senator BRISTOW. If the congressional district was made the unit, then it would be, of course, comparatively easy for the Comptroller of the Currency to deal with such an organization as that?

Mr. KENASTON. Yes. But, of course, there might be reasons for its division through congressional districts, and by reason of the different kinds of business that these banks had to take care of.

Senator BRISTOW. Yes.

Mr. KENASTON. The different class of securities.

Senator BRISTOW. Well, if these banks, then, as I understand you, have means by which, when there is a stress because of any business condition that is unusual, such as the moving of a heavy crop or something like that—if they have means by which they can get relief that was determined upon the same character of security that is proposed under any system, it would remove a great many objections from the bill, would it not?

Mr. KENASTON. I think it would.

Senator BRISTOW. Then you made another suggestion last night, during Senator Reed's interrogatories, that interested me very much, and that was in describing the area of the region of which St. Paul would be the center if a regional bank was established at St. Paul, stating that it would reach the Pacific Ocean and be 400 miles wide and 1,700 miles long.

Mr. KENASTON. Yes.

Senator BRISTOW. And that would be apt to give some of our eastern friends here a notion of what kind of a country we have got out there.

Senator NELSON. It is 1,700 miles east and west and 400 miles north and south?

Mr. WINSTON. I will say, for the information of the committee, that Mr. Mosher went over this thing very carefully last night in order to group these banks so as to give the necessary amount of capital. His statement shows that in the group which he has arbitrarily made which would probably be the group tributary to the twin cities as a center. I think it is about 1,400 miles long east and west, practically, and about 600 miles wide north and south. And in that group he has been able to find, if all the banks entered the system, about $6,000,000—if all the national banks entered.

Now, that is probably as close a group as you could make, in view of the fact that some banks might not come in, and that if the State banks did come in, they would reserve their right to come in, but only enter the association when they saw fair weather ahead.

Senator BRISTOW. That would make the territory, then 600 miles wide and 1,400 miles long, a still larger area than the one suggested of 400 miles wide and 1,700 miles long?

Mr. WINSTON. Yes.

Senator BRISTOW. If a regional bank was established then, at the twin cities, it would have to come far enough to the south to take in the State of Nebraska?

Mr. WINSTON. No; it would go to Iowa.

Senator BRISTOW. It would take in Iowa, and the line would run west——

Mr. WINSTON (interposing). Iowa and South Dakota——

Senator BRISTOW. Then it would run west?

Mr. WINSTON. It would run west, taking in Montana and a part of Wisconsin also, I think.

Senator REED. Well, when we are speaking of that, Iowa is not financially tributary to your country, but to Chicago, is it not?

Mr. WINSTON. If it takes in the whole of Iowa, it would make a fraction over $600,000,000 capital for the group, the 10 per cent as cash asset.

Senator REED. In order to take Iowa into this district, you would have to take it out of that territory where it now does its business. It does nearly all of its business with Chicago.

Mr. WINSTON. According to Mr. Mosher, who has been with the Citizens' League——

Senator NELSON (interposing). This was on the theory of making Minneapolis and St. Paul the center.

Mr. WINSTON. The northern half of Iowa is tributary to the Twin Cities; the southern half might not be; it might be tributary to Kansas City or to Chicago.

Senator REED. It is principally Chicago, as a matter of fact.

Mr. WINSTON. Yes; principally, I think.

Senator BRISTOW. Mr. Untermyer, of New York, who is very ardently in favor of the bill, has spoken of one of its strong points being the possibility of enabling the nine directors of the regional bank to become familiar with the financial responsibilities of the various banks within the region, by personal knowledge.

If the same area was required for a regional bank located at Boston, the western line of that region would take in Minneapolis and St. Paul, and come farther south, or as far south as Philadelphia. So that if you transferred that region, in area, which would

have to be created in order to give a regional bank at Minneapolis and St. Paul, each, and located it at Boston or New York, that area would take in Minneapolis and St. Paul, Philadelphia, New York, and Boston.

Senator NELSON. That is, in the matter of land.

Senator BRISTOW. In the matter of area.

Senator NELSON. Yes.

Senator BRISTOW. If Mr. Untermyer was here, I think we would get a little better construction than he seems to have of the magnitude of the United States and the utter inability of any nine men to become familiar with the local condition in an area of that size.

Mr. KENASTON. Senator Bristow, that brings up the suggestion that I made last evening, which I would like to read you again, that this committee visit the West. They can see for themselves very much better, and, I think, with more satisfaction than any of us could be able to tell them what the conditions are.

Senator REED. Now, you must except from that a few of us who live out in that country. But I think it ought to be made obligatory upon a man who has been born and raised in New York to go out there.

Senator BRISTOW. That is a very interesting suggestion to me. I have lived west of the Missouri River for 40 years. I have traveled and visited every State in the Union, and I think I am a reasonable observer of conditions——

Senator REED (interposing). Have you made the Chatauqua circuit, Senator Bristow?

Senator BRISTOW. Well, I have not made any speeches on it.

Senator NELSON. Well, I have lived 40 years in a country that would have been composed entirely of Frenchmen if it had not been for Thomas Jefferson. [Laughter.]

Senator BRISTOW. Now, your delegation yesterday afternoon, Mr. Kenaston, told me things about your methods of business within 600 or 700 miles of my home, where I have lived for 40 years, in a State that I have visited a number of times, that I have never heard of before—this seasonal-market period.

Mr. KENASTON. Yes.

Senator BRISTOW. And I do not believe, outside of Senator Nelson, that there is a member of this committee that knew anything about the industrial and commercial and financial habits that those people have there. And your knowledge of that fact has led you to make this suggestion, that the committee ought to visit that country?

Mr. KENASTON. Yes.

Senator BRISTOW. What advantage do you think the committee would obtain from a visit that it can not get from delegations coming here, just as you gentlemen have done?

Mr. KENASTON. I think, Senator Bristow, if the fact were advertised that this committee and a subcommittee from this committee was to visit the cities of St. Paul, Minneapolis, Duluth, or Fargo, N. Dak., or Billings or Helena, Mont., and a general invitation was sent out to the business men, farmers, and the bankers, I think you would have very large delegations coming to see you. And from those delegations you would be able to glean information with reference to the needs and requirements of the different sections of country which I believe would be of great value to you in framing the bill.

Senator REED. Do you think a bill of this importance can be framed without a close study of the commercial conditions in various parts of the country—that it can be safely framed?

Mr. KENASTON. I do not.

Senator BRISTOW. Well, is it your idea that a committee, either this committee or a subcommittee of it, if it visited Helena, for instance, should have a hearing there for a day or two?

Mr. KENASTON. Yes.

Senator BRISTOW. And let citizens of the community that were interested in the subject, or that might be selected by the Senators, or the Members of Congress representing the district, appear before the committee?

Mr. KENASTON. Yes.

Senator BRISTOW. And outline to the committee the conditions that exist and their opinion as to how this legislation will affect their territory?

Mr. KENASTON. Yes.

Senator REED. Senator Bristow, may I ask a question at this point?

Senator BRISTOW. Yes.

Senator REED. Do you believe that there is 1 man out of 1,000 in your community—your part of the country—who understands even the naked outlines of this bill?

Mr. KENASTON. Well, not——

Senator REED (interposing). Has it been discussed; has it been thoroughly discussed by the people in any way, in public meetings?

Mr. KENASTON. No; this bill——

Senator REED (interposing). In the press, or in any other way—thoroughly discussed?

Mr. KENASTON. No; this bill, I do not think, has been discussed. Mr. Mosher just tells me that this bill, during the last 19 months—or this proposed legislation—has been discussed in 56 different towns and commercial clubs.

Senator NELSON. In Minnesota.

Mr. KENASTON. In the State of Minnesota.

Senator REED. Well, this bill could not have been discussed for 19 months.

Mr. KENASTON. This proposed legislation.

Senator REED. Because nobody knew what it was 19 months ago. Of course, the subject of currency reform may have been discussed that long ago.

Mr. KENASTON. Well, the discussion originally was on the report of the Monetary Commission.

Senator REED. Oh, yes.

Mr. KENASTON. And that has led up, I suppose, to suggestions and proposals for new legislation. But this bill, as it stands to-day, I do not suppose has been discussed very much—except, perhaps, by people who are intensely interested in having good banking opportunities and in having currency, or money, that could be borrowed as it was needed.

Senator REED. There has been no general public discussion of this bill or any other bill nearly enough like it so that we can say that it is a similar bill?

Mr. KENASTON. No; I do not think so; I do not think there has been.

Senator BRISTOW. Well, do you not think it would be possible, if it should not be convenient for the committee to visit your section—I am very much interested in your suggestions; indeed, I would like to have some of the gentlemen who have appeared before us and talked so wisely about currency legislation go out into that country and come into contact with the people and discuss with them some of their ideas. I think it would be very educational to some gentlemen who are very learned now, so far as theories go. But if that should not be practicable, could we not get a fair notion of the conditions and the necessities of the national banks by having delegations, such as yours, come here to represent these communities?

Mr. KENASTON. Yes; you could undoubtedly get a fair idea of what the people want from every community by a delegation of its people coming here to you; but I still believe that you would get very much closer to the people if you visited their section of the country. The information which we might give you here to-day would be corroborated by a personal visit to our section of the country.

Senator BRISTOW. Do you think that we could get a more accurate impression of the conditions there by personal contact with a larger number of people and by observation than by hearing them here?

Mr. KENASTON. I think you would be better satisfied with the evidence, and it would impress you more by a personal visit; and I think if it was known that you were going to visit the different sections of the country for the purpose of having hearings on this bill, the general public would become interested in it and acquaint themselves with the bill and the different features of it.

Senator BRISTOW. Well, that impresses me very much.

Mr. WELLS. May I interrupt you, Senator, for one moment?

Senator BRISTOW. Yes; certainly.

Mr. WELLS. Assuming for the moment that your committee may not find it practicable to visit all sections of the country, if it were well known that you would welcome information from business men not inspired by the bankers—strictly business men, as distinguished from the banking fraternity—I believe that you would have visits volunteered from representative business men from all the States in the Union. There has been a general feeling that the committee was not prepared, was not ready, to receive such delegations, either from lack of time or from lack of disposition. In fact, we thought that we ourselves had a very hard task to perform to get you to permit us to come here and be heard. And that is the impression that is general throughout the country.

Senator REED. That idea of yours has been dissipated, has it not?

Mr. KENASTON. No, sir.

Senator REED. I say that the idea that you were not welcome here has been dissipated since your arrival, has it not?

Mr. WELLS. Oh, yes. We feel that we have had the most hospitable and generous treatment. And I have no doubt that the visit which this delegation has made and the welcome that it has received at your hands will result in a constant movement throughout the country, if the business men feel that time is going to be given to receive delegations here and afford them a fair opportunity to present their views,

and I think you will find that they will be coming, at any rate; but with that knowledge that they will be welcomed, I am sure you will get an immense amount of information that you never would get from New York attorneys or bankers.

Senator SHAFROTH. How long do you think it would take this committee to visit all sections of the United States?

Mr. WELLS. Too long for you to do it. I have no doubt of that.

Senator BRISTOW. Well, now, I hope the time has not come when legislation affecting every community in the United States can be rushed through and the people not be given an opportunity to say how it affects them in their vital commercial and industrial relations. If we have reached that point in legislation, so that we can not take a few weeks' time to learn how the bill that is proposed to be passed will affect the country we are legislating for, I think we have reached a queer stage in American legislation myself.

Senator POMERENE. We are taking that time now, are we not?

Senator SHAFROTH. Do you not realize that we have had this same discussion going on ever since the Monetary Commission began, more than four years ago?

Senator BRISTOW. I do not think so at all. I think the Monetary Commission's bill is different; and I am just as much against that as I am against this, so far as that is concerned.

Senator HITCHCOCK. Gentlemen, we have two or three witnesses who desire to be heard. Are there any more questions to be asked of Mr. Kenaston?

Senator NELSON. I would like to ask a few, Mr. Chairman. Mr. Kenaston, is not the pressing defect of our monetary system lack of elasticity?

Mr. KENASTON. Well, that is one of the objections.

Senator NELSON. It is too rigid, based on bond circulation, and is not considered responsive to the wants.

Well, now the proposed bill—it is conceded here before the committee that the proposed bill is really an asset-currency bill—that is, is is based upon the commercial assets of the banks, backed by a gold reserve of 33⅓ per cent.

Now, suppose we give the Federal national banks that privilege: Instead of having a bond circulation allow them to issue a circulation, with a gold reserve, based upon their commercial assets, the same as it is proposed to do under this plan.

Would that not cover the situation if, in addition to that, we provided for a system of emergency currency?

Mr. KENASTON. That will retire itself?

Senator NELSON. Yes.

Mr. KENASTON. Yes; I think so.

Senator NELSON. In other words, give the national banks authority to eliminate their present form of circulation, allow them to have a circulation on the same plan as this bill, based upon commercial assets, backed by a gold reserve of 33⅓ per cent. Give the national banks individually, separately, that privilege, and then couple that with a provision by which they could issue emergency currency that could be retired when the emergency ceased to exist for its issue. Would not that solve or be one of the plans that might solve, the difficulties?

Mr. KENASTON. That would be one plan, I should say, to solve them.

Senator NELSON. Would not that be a simpler plan than this?

Mr. KENASTON. I think it would be very much simpler—less machinery, less complication, less expense.

Senator NELSON. That is all, Mr. Chairman.

Senator HITCHCOCK. Gentlemen, the next witness in the regular order would be another member of this delegation from Minnesota. But Senator Reed has had here for several days a banker from St. Louis, Mr. Breckinridge Jones, and I want to ask the members of the Minnesota delegation whether they would be willing to delay a little and allow Mr. Jones to intervene at this point?

Mr. KENASTON. Mr. Chairman, we have three members yet who desire to be heard.

But we are at the service of this committee. We came here at your invitation, generously granted to us. And we are willing to stay as long as you deem necessary if it takes a week. We would like, of course, to get away as soon as we can, but we are at your disposal.

Senator REED. It would be a personal favor to me if you would allow Mr. Jones to be heard now.

Mr. KENASTON. Our delegation is perfectly willing to conform its movements to your wishes.

Senator REED. I made the mistake of wiring to Mr. Jones that he could be heard here on Monday. I did it without knowing that your delegation was coming. So he came in response to that telegram, and I rather feel obliged to let him be heard now if practicable.

Senator HITCHCOCK. Mr. Jones, will you please take the stand and give your full name, business, and residence for the record?

STATEMENT OF BRECKINRIDGE JONES, PRESIDENT OF THE MISSISSIPPI VALLEY TRUST CO., ST. LOUIS, MO.

Senator HITCHCOCK. Would you like to make your statement in your own way, without interruption——

Senator REED. Just let me put one thing further in: What is the capital of your company?

Mr. JONES. $3,000,000 capital and about $5,500,000 surplus.

Senator REED. And what about your deposits?

Mr. JONES. Practically $16,000,000.

Senator REED. How long has the Mississippi Valley Trust Co. been in existence?

Mr. JONES. Since 1890.

Senator REED. You are a trust company organized under the laws of the State of Missouri?

Mr. JONES. We are.

Senator REED. What general lines of business do you conduct?

Mr. JONES. The general lines that are usual among trust companies in the large cities of the country.

Senator REED. You have various departments?

Mr. JONES. Yes; we have a savings department of about 20,000 depositors. We have current accounts of about 9,000.

Senator NELSON. You have commercial deposits, too?

Mr. JONES. We have what we call current deposits, upon which we pay interest. We pay interest upon all deposits subject to check.

We also have a real estate department that looks after the real estate that is connected with the trusts that are committed to us, we acting as executor and in the various trust relations, and in that way we have charge of a great deal of real estate; and we have a department that looks after that.

Senator NELSON. You loan on real estate mortgages?

Mr. JONES. We do.

Senator NELSON. Farm mortgages and all properties?

Mr. JONES. All kinds of real estate; also on collateral, and we buy commercial papers. We have, in round numbers, 40,000 customers.

Senator REED. That is all.

Senator HITCHCOCK. Now, would you like to make your statement in your own way, and would you like to be interrupted, or would you like to make your statement without interruption?

Mr. JONES. The main points I want to raise are very few. To run over them will take but a few minutes, and then I would be glad to go into any other questions.

Senator HITCHCOCK. Very well.

Mr. JONES. I appear, in the main, to discuss the question of the relation of State banks and trust companies under this bill. The bill as now drafted, under section 10, provides for the admission of State banks, banking institutions, and trust companies. Those three terms are used, I presume, because they represent three different businesses. But throughout the bill there is rather a confusion of terms. I think, and the suggestion that I want to make as to the use of those words is merely to make the bill plain as to what is the apparent intention. The views I have on that question are these: Section 10 provides that applications for stock in reserve banks by State "banks, banking associations, and trust companies," and afterwards, in that section, that the reserve board shall permit "such applying bank" to become a stockholder, apparently including a banking association and trust company under the term "bank." Elsewhere, all throughout the bill, apparently it is intended that a trust company, if a stockholder, shall be included in the term "member bank."

If throughout the bill instead of the words "member bank" the word "stockholder" had been used, there would be no reason for doubt. The right of becoming stockholders and the right to discount are of such paramount importance to trust companies that such rights should not be left to construction but should be specially mentioned. I mention this because once in my State, years ago, when our city charter provided for bidding on city deposits by banks and banking institutions, the city counselor, on technical grounds, held that a trust company was not included in those terms, and the trust companies were then not permitted to bid. The defect could be remedied by saying somewhere in the bill that "the words 'bank' or 'member bank' wherever used in this act shall be construed to include 'trust company.'" I mentioned that because—it may not be exactly the way to reach it—in several places in the bill the words "banks" or "banking associations" are used, and in some instances evidently are not intended to include trust companies.

Senator HITCHCOCK. The words "banking association" are generally used to include national banks, which are just technically designated as "national banking associations."

Mr. JONES. But in the provision where you find that State banks or banking institutions are especially permitted to nationalize the use of the word "bank" or "banking institutions," I take it, is intended not to apply to trust companies, and therefore that confusion arose until during the last few days in the bill in the House the word "stockholder" or "shareholder" and other general terms were used: and then in the general revision the term "member bank" was put all through. Now, if trust companies are included in "member banks," it is clear their rights will be defined.

Senator REED. That would all be covered by a line?

Mr. JONES. It is very simple.

Senator REED. It would be all right if you say "the term 'member bank' shall include any bank holding stock or trust company holding stock."

Mr. JONES. That will be entirely satisfactory. It is almost a clerical question I am raising; but I think there are some things in doubt from the trust company standpoint, and as I am interested in that feature all my views are taken from the standpoint of the trust company; and that is a simple suggestion to make the bill plain on what I think it means. Now, to add to the popularity of the bill and to make it a success, it is very desirable to open the door to trust companies the same as to State banks.

In section 20, page 37, line 5, country banks, whether national. State, or trust companies, would be required to keep reserves in a national bank: that is, during this 36-months period. It would be an undue and unnecessary hardship on the country State banks and trust companies wishing to join the system, having now their balances in other State banks or trust companies, to be forced to change such balances to national banks.

Senator REED. What section is that?

Mr. JONES. Section 20, page 37, line 5. I will read that part of it.

Senator NELSON. You are clearly right about that. That ought to be amended; otherwise they will have to transfer their balances—their reserves—from State banks to national banks.

Mr. JONES. Yes; I think that is just a detail that has not been worked out in the bill, and I only suggest what I think will make it mean what it intends to. Now, it would be an undue and unnecessary hardship on the country State banks and trust companies wishing to join the system and having now their balances in State banks and trust companies to be forced to change such balances to national banks, and it would also be unjust and unnecessary to force central reserve and reserve city State banks coming into such a system to lose such deposits. The words "national banks" there used should be changed to "member banks" or the defect otherwise remedied. In other words, anyone who comes into the system as a "member bank," keeping their reserve requirement subject to examination, should be a competent reserve agent for another banker.

Senator SHAFROTH. Is it your suggestion to strike out "national" in line 5, page 37, and insert the word "member"?

Mr. JONES. Yes; that is my suggestion. And the same idea, exactly, occurs in speaking of a different class, on page 38, line 4. It is just the same thing exactly. On page 38, line 4, "national bank" should be changed to "member bank."

Senator SHAFROTH. Now, will you give me, in your language, the suggestion that you made that trust companies shall be included in the words "member banks"? Give me the language you want to use.

Mr. JONES. The thing that I suggested—I do not know how material it is—is that the word "bank," or "member bank," wherever used in this act——

Senator SHAFROTH. Where would you want it to come in this bill?

Mr. JONES. The term "member bank" being used all the way through, I think it might possibly be put in at the end of section 10, which is the section that especially provides for State banks and trust companies coming into the system. It seems to me that would be the natural place for it.

Senator SHAFROTH. Now, will you give it to me, so that I can put it in here?

Mr. JONES. It will read after that section when finished:

> The words "bank" or "member bank," wherever used in this act, shall be construed to include trust companies.

Senator NELSON. You use at the top of line 16 the term "applying banks." You had better carry your definition a little farther and say "member bank, applying bank, or trust company."

Mr. JONES. I take it when you take the word "bank," the word "applying," or any other adjective, would not change it. When you use the word "bank" that would be sufficient.

Senator SHAFROTH. Then, as I have it here, your suggestion is the words "bank" or "member bank," wherever used in this act, shall be construed to include trust companies.

Mr. JONES. Trust company.

Senator NELSON. And it would probably come in best at the end of the section.

Senator SHAFROTH. Yes; that is where I put it in.

Mr. JONES. I will come back to that section in a moment with another suggestion, but I want to finish this question of reserves.

In section 10, page 16, line 16, State bank and trust company members are required to comply with the reserve requirements applicable to national banks. That is all right if it refers only to amounts, but it might be construed that member State banks and trust companies should keep their reserves in national banks, which would be unfair to the State institution members. If you use the sweeping language that "the reserve requirements applying to national banks should be applicable to trust companies" it might be construed that not only the amounts, but the places where they should be kept, would be similar. I think you have removed that objection.

Senator REED. What page is that?

Mr. JONES. That is on page 16, line 16.

Senator REED. What is your suggestion there?

Mr. JONES. To meet the views I have, it would mean that the reserve requirements as to amounts.

Senator SHAFROTH. You know the reserve requirements are no longer as to national banks. They are to be deposited in the Federal reserve banks.

Senator NELSON. But it takes 36 months before you complete the system. There is a transitory period, and I think your contention is fully justified.

Mr. JONES. Yes; I think it is the purpose of the bill.

Senator NELSON. After 36 months the objection will be eliminated.

Senator SHAFROTH. Will you dictate your language in the place where it is to be inserted?

Mr. JONES. I should insert it after the word "requirements."

Senator NELSON. "As to amounts"?

Mr. JONES. Yes. On page 16, line 16, add the words "as to amounts."

Senator NELSON. Yes; that would cover it. It would read then

to comply with the reserve requirements as to amounts and submit to the inspection and regulations provided for, etc.

Mr. JONES. That makes the bill consistent, I think, with what it is intended to be.

Senator NELSON. It is intended to cover this transitory period of 36 months?

Mr. JONES. Yes.

Senator NELSON. Because after that there will be no occasion for it.

Mr. JONES. Now, in section 27, page 44, savings departments of national banks are required to keep only 5 per cent reserve in their savings deposits, whereas under the bill member State banks and trust companies are required to keep the full reserve on all their deposits. This bill does not pretend, at least does not in these provisions, to provide for State banks and trust companies keeping a savings department. They have that right and can do that under their State charters, and if they become members they would have to keep the full reserve as set out in the other parts. You provide that a national bank can have a savings department, and as against those savings deposits, it would only keep a 5 per cent reserve; whereas, in our institution, for instance, where we have 20,000 savings depositors as against those savings deposits I would have to keep, being in a central reserve city, 18 per cent reserve; but a national bank, just across the street, if it had a savings department against its saving deposits would only have to keep 5 per cent reserve.

Senator NELSON. Where is the particular phraseology of the bill that refers to the 5 per cent?

Senator REED. What is the particular part?

Senator NELSON. It is in section 27.

Senator REED. What is the amendment suggested?

Mr. JONES. Just a moment; let me answer Senator Nelson. It is on page 48, line 21. Beginning in line 17, it reads:

It shall be the duty of every national bank to maintain, with respect to all deposits liabilities of its savings department, a reserve in money which may under existing law be counted as reserve, equal to not less than five per centum of the total deposit liabilities.

Senator NELSON. What lines?

Mr. JONES. Line 21, page 48.

Senator REED. Could that be covered, Mr. Jones, by saying it shall be the duty of every national bank, State bank or trust company, to maintain—or member bank——

Senator SHAFROTH. Why not strike out the word "national," and put in "member bank"—it would be the duty of every member bank?

Mr. JONES. I think it would better be covered by the suggestion I made, that there should be added a provision giving to State banks

and trust companies a right to keep only 5 per cent reserve against their savings deposits, provided they comply with the requirements made of national banks as to savings departments. Or, in other words, we may desire to have a savings deposit in our institution and not comply with those requirements. The nature of the business of our community may be such that we would not want to be held down to the close lines of the savings department of a national bank. If it is preferred to come under and keep our savings department and meet the general requirements, all right; let us do it; but if we want to get the benefit and to be placed on the same plane as the national bank, we ought to have only 5 per cent against our savings deposits. That is, I think it ought to be required to meet the same restrictions as national banks.

Senator SHAFROTH. This amendment you propose ought to come in there at the end of that paragraph?

Mr. JONES. I should think at the end of that paragraph.

Senator SHAFROTH. Now, will you read it to me, please?

Mr. JONES. If any member State bank or trust company shall comply with the requirements made of national banks, as to its savings deposits, the reserve requirement——

Senator NELSON. Shall be the same as in the case of national banks?

Mr. JONES. That is better.

Senator NELSON. That would cover it, I think.

Mr. JONES. I think that would cover it.

Senator HITCHCOCK. Mr. Jones, suppose your trust company elected not to comply with the national bank requirements? Would your savings bank be outside of the system?

Mr. JONES. Oh, no. Our trust company is one institution. If we choose to keep 18 per cent against our savings deposits, I do not think anybody can complain because we do that. We may find that to accommodate our community, to meet the needs, that we want in our savings department the kind of investments which our State laws would permit. They might be more liberal than the restrictions you place upon a national bank. If we do want to do that, we have to be examined to see that we are safe and our business is properly conducted, and then if we were to become members we would have to keep 18 per cent reserve against our deposits.

Senator HITCHCOCK. You could then make investments which a national bank would not be allowed to make?

Mr. JONES. Certainly, because we are keeping an 18 per cent reserve as against their 5; and we ought to be allowed to do that.

Senator NELSON. In other words, he means if they want to conduct their savings department under the State law, as they do now, they should have the privilege to do so; but if they want to come in under the national law and conduct a department on that plan they should not be required to keep more than 5 per cent.

Senator REED. If they continue as they do now, they would have to put up 18 per cent?

Mr. JONES. Yes; which would be a hardship; and I do not see how you could remedy that very well. In our State we have no mutual savings banks as in other States. That business is done by the trust companies for the very simple reason that a trust company with the

large capital and surplus affords more protection to the savings depositor than would a mutual savings bank with no capital.

Senator HITCHCOCK. Under that provision, could a national bank across the street from you maintain a savings department on the same terms you would by keeping 18 per cent reserve?

Mr. JONES. Under the national-bank act, as it stands now, I do not think they could, because the national bank is not permitted to lend on real estate and do the various things we are permitted to do. The national bank is a commercial institution and was never intended to do that kind of business.

Senator REED. But Senator Hitchcock, I think, means whether under this bill this situation would not be developed: A trust company would have the option to proceed under its present system, putting up 18 per cent, or conforming to the terms of this bill with reference to national banks and putting up 5 per cent; whereas the national bank across the street would not have that option, but would be obliged to conform to the terms of this bill, putting up 5 per cent.

Mr. JONES. Most assuredly.

Senator REED. That condition would result?

Mr. JONES. There is a fundamental difference between the national bank and State bank or trust company that always has existed and I think always should exist. It was never intended by the national-bank act that a national bank should be as broad in its provisions as the State institutions.

Senator NELSON. You see the justice in this arises from the fact that these State institutions have the right to carry on a savings department. The national banks have not that right now, and this bill confers that right upon them for the first time—to carry a savings department.

Senator POMERENE. Many of them do conduct a savings department?

Senator NELSON. Yes; but they do it in a roundabout way. They loan on real estate in a roundabout way, but can not do it legitimately now, as I understand.

Mr. JONES. Oh, they do many other things that are not provided for by their charters.

Senator REED. As I understand you, you are not commenting, but just trying to draw out the fact?

Senator NELSON. Yes.

Senator REED. And, as a matter of fact, if the suggestion made by Mr. Jones was carried out, this would be the result: The national bank could establish a savings department, but it would be one of limited power?

Senator NELSON. Limited by this act.

Senator REED. Limited by this act; and they would put up 5 per cent. Now, you come to a trust company; they could do exactly what the national bank did, if they saw fit, putting up 5 per cent. But the trust company would have a further right or option which the national bank would not have, namely, it could go on under this present system and transact business that the national bank could not do at all, but in that event it would have to put up the larger reserve of 18 per cent. It would seem to give the trust company in that case a little advantage.

Mr. JONES. Most assuredly. It has a wider power. I am making this suggestion merely to meet the bill as it stands. Personally, I think the argument can be made convincing. I think this whole savings-bank provision in this bill should be stricken out, that national banks ought not to have any savings-bank provision at all. But I am not attacking that; I am only taking the bill as it stands and trying to make it harmonious and then leave the question of the merits of the bill on those provisions to come up in their natural way. But if the bill is passed in the general form as we have it here I want to make it harmonize so that the provision will apply alike to State banks and trust companies as to national banks as to these reserve questions. It is a separate question as to whether that clause should be in there at all or not. I want to make a suggestion or two here further as to one or two specific questions in the bill, and then I should be very glad, if the committee desires, to discuss the relative position of the State banks and trust companies as to national banks.

Senator NELSON. It seems to me that we should endeavor to hold out inducements to get trust companies and State banks to join the Federal reserve system, because they have broad powers now. State banks and trust companies can loan on farm mortgages and on real estate, and it is not likely that they would relinquish that power and come in here if we hampered them; and this is simply to make it an inducement for such banks and companies to join. That is your theory, is it not?

Mr. JONES. That is exactly the point. I would like to feel that if this bill passes that trust companies would have the opportunity to come in, and I want to make it attractive to them so they can, and I hope very much that the bill will be so perfected and made such that State banks and trust companies can and will come in. I think it ought to, and I hope that it will be made so my institution can become a member, and I am making these suggestions in the light of putting it where it will be possible for us to come in without being at a disadvantage.

Senator REED. Of course, Senator Nelson, I make this suggestion because I think we must think of it.

Senator NELSON. It is very important.

Senator REED. If we have a system in which the State banks and trust companies can have every right under the law which national banks have and many more, the question would then arise, What will happen to the national banks? Will the national banks not surrender their national charters and organize under a State law as either a State bank or a trust company? Will that not be the inevitable result? I do not know.

Senator NELSON. But we must look at it from the other standpoint.

Senator REED. I do.

Senator NELSON. And that is the standpoint of the public. They have certain benefits and advantages under these trust companies and State banks that they ought not to be deprived of.

Senator REED. Do not misunderstand me. I am not trying to keep them out. In my State I understand, from the conversation I had with Mr. Jones, although I knew it in a general way before, that there

are only about 14 national banks and over 1,200 State banks and trust companies.

Mr. JONES. Let me finish the few minor points I have here and I will be glad to take up these questions with you.

There is a minor amendment that I think should be added at the end of section 10, page 17.

Senator SHAFROTH. You already have suggested one amendment there.

Mr. JONES. Yes; but this is an amendment that relates to the immediate language at the end of that paragraph, beginning with line 11:

* * * The Federal reserve board be required to suspend said banking association or trust company from further privileges of membership and shall, within 30 days of such notice, cancel and retire its stock and make payment therefor in the manner herein provided.

That would mean that there is a dead line. Under the law, if the board says, "You have violated this law," the law would then make it peremptory that at the end of three months they should put them out. During that three months' time they may have removed the delinquency and the bank may have placed itself in good standing. When something has been done and there is a penalty, and the penalty has been fixed, I think the board should be given the right to remedy it. If the Federal reserve board found, under the strict language of this bill, that a bank had done a certain thing, they would give that bank notice, but there would be no power in the Federal reserve board to remit the penalty. I would suggest adding:

But said Federal reserve board may, in its discretion, recall such notice.

Now, as to the importance of State banks and trust companies being invited into this, and the bill being made attractive for them. I would like to draw your attention to the relative importance of State banks and trust companies in the country at large.

Senator HITCHCOCK. Before you leave that, Mr. Jones, as you have called attention to this fact, I should like to ask you a question in connection with it. I refer to this power of suspension given to the reserve board. That applies not only when a bank is found to have violated the law, but when it is found to have violated the regulations of the Federal reserve board. Do you believe the law ought to give to any tribunal, as it is in this bill, such absolute power?

Mr. JONES. I think it is very extreme. I think that is extreme; but you have such power now, practically, with the Comptroller of the Currency, over a national bank. He may make regulations and enforce them so that he could put any bank out of business almost.

Senator REED. It sometimes has been very greatly abused, too, I think.

Mr. JONES. As a general proposition I think the tendency has been decidedly the other way. I do not think very much of that as a practical question. I think when you get in there a practical Federal reserve board they would have no point in trying to put a bank out on some fallacious pretense any more than the Comptroller of the Currency would put out a national bank by any fallacious pretense.

Senator NELSON. They could have shut up every bank in New York City in 1907.

Mr. JONES. I think we have to deal with this bill on the assumption that it is to be administered by men—not demagogues or supermen. These are practical things that will have to be handled in that way with common human agencies. We give enormous power to the President of the United States. That power has to be lodged somewhere. It has to be administered by a man, and so, in this bill, we must take it that every man that comes up to a position of prominence and is made a member of that reserve board has been educated by his associations, and that he has been educated to come up to the spirit of the business requirements at large. In the banking business to-day the stockholders elect officers and directors of a bank, and power and discretion has to be put into their hands; and there is no other way in which the affairs of the bank can be managed.

Senator BRISTOW. Mr. Jones, of course that is true to a certain extent; but this incident came to my attention not long since: A number of gentlemen wanted to organize a national bank in a town with which I am more or less familiar. They applied for the charter, and the charter was denied because the comptroller did not think there were any more banking facilities needed in that vicinity. I would like to know what business that is of his. The people there had the money; they complied with the law: they were willing to invest their capital in that business. What right does the comptroller have to deny a charter of that kind? He afterwards granted it—after political influence had been brought to force it. Don't you think that is a pretty high-handed step?

Mr. JONES. I do.

Senator BRISTOW. That has been done in other instances. undoubtedly.

Mr. JONES. Of course, I think that one of the prime causes of the marvelous development, the unparalleled development, which has taken place in the United States has been our free banking system, where the people in every community have the opportunity of organizing their own banks, officered by people of their own community and in sympathy with that community.

Senator NELSON. They have mobilized their reserves in each community.

Mr. JONES. They have; and I think that is one of the prime causes for our wonderful development, as much as any other given cause, or anything that may have been done by legislation.

Senator HITCHCOCK. In your judgment, what will be the effect upon free banking in the United States if this bill is passed in its present form?

Mr. JONES. If you will make it attractive to the State banks and trust companies, I believe it will add to the success of them all.

Senator HITCHCOCK. Will their independence remain?

Mr. JONES. I think so. I think they will be even more independent.

Senator HITCHCOCK. Will a bank be able to exist outside of the system?

Mr. JONES. I think so. All financial institutions are dependent upon the character of their patronage and the character of the business they do for what they want to do. When we came to organize a trust company the national-bank act was open; we could have incorporated a national bank if we wished to, but we did not want to

do the kind of business that a national bank did. We thought that that particular field was largely occupied by national banks in our community, and we felt that there was a demand to meet the varied needs of a diverse community there that was not met by a national bank and ought not to have been met by a national bank and never should have been met by a national bank, and that that would be open to a State bank. Therefore we incorporated a trust company.

Now, so, you may take a small bank—to illustrate, say a bank down in the Ozarks of Missouri, a small bank. Its business is intimately connected with the interests of the particular community in which it is located. It may make loans on ginseng or coon skins, and they may be just as good security in their community as the city banks can get in their own community. That bank does not come in such contact with the commercial currents of the country that it might find it necessary to come into this system. It would not need the lines of discount, because it does not do that kind of business. It is not a commercial community; it is not in a community where its products go out, except in a way that it could reasonably take care of them. It could reasonably live as it is and should not be forced into this system, and that community ought to be left to have that kind of a bank if it wants it, and no national legislation should be enacted that would compel that bank to be at such a disadvantage if the people of the community would be deprived of the right of having an institution of that kind if they wanted it.

Senator NELSON. And is it not a fact that a banking institution in a small town like that has to do all three kinds of banking business? In a small town of that character they can not have the three different kinds of banks—the commercial bank, the savings bank, and the trust company. In these little towns the one bank must do all that business to accommodate the people. Is not that true?

Mr. JONES. Senator, that is true in one sense but not in another. Now, we have gotten into that line—when a community first starts, a lot of people go out and pioneer and settle up the country. At first they do not need a bank. As soon as there comes to be a small community there the first thing that comes is a private banker. He starts a private bank. As soon as that business gets to be large enough so that the community would be inconvenienced by the death of that man, when his estate would have to go through the probate court to settle his affairs, then the development of the community calls for a corporate bank. That small community, as it is so far developed, has no use for a trust company. When some man dies his partner or his brother-in-law or his cousin or somebody in the family can act as administrator or executor, etc. The demands of business are such that members of that community have ample time to attend to their own as well as the affairs of others.

Senator NELSON. I referred to the other feature, of loaning on real estate and of savings deposits of banks.

Mr. JONES. That is done by a State bank, and should be left to suit the varied needs of that community. It, the State bank, should not be restricted as a national bank. When that community gets larger and the development is sufficient for the commercial needs of that community, where they would need a strictly commercial bank, it might be as well to have a national bank under our present system. When the community gets still larger and the population grows dense

there is an aggregation of wealth and the diverse needs of a large community. then there is need for a trust company. When business gets big, and the demands of business are so imperative that the successful man in the community has no time to look after the affairs of others, then we find that the demand springs up for a corporate entity to do those things. It does not get sick: it is there all the time. It must have to the highest extent the respect of the people of the community. It is then that trust companies appear. You can not have, and you never should have, in any financial center of the United States but one class of institutions. Nothing could be more unfortunate for the development of this country than to drive all the institutions into the Federal system.

Senator NELSON. You will excuse me for breaking in on you, but the questions occurred to me in line with what you were stating. We have now under the law a large number, I thing upward of 2,000 small national banks, with a capital of $25,000 in the small towns. Those banks can only exist in towns with a population of not over, say, 2,000 people.

Mr. JONES. They never ought to have existed at all, and it has been an unfortunate development of the national-bank law.

Senator NELSON. Well, it has worked very well in our State.

Mr. JONES. The State bank would have worked just as well and it would have been more elastic to the demands of the community.

Senator NELSON. We have State banks of $10,000, $15,000, and $20,000 capital, and they all work very well.

Mr. JONES. The State banks could have done just as well as the national banks. As to the relative importance of them, we have now in this country, according to the latest reports, about 28,995 banking institutions——

Senator NELSON. Including trust companies?

Mr. JONES. Including State banks, national banks, and trust companies. Of that number there are about 3,600 that do not report to the Comptroller of the Currency, and his figures would not show as to them. Therefore the report of the banks here should show that there are something over 25,000. Of these 28,995—of course, all the nonreporting banks are not national banks—there are only 7,372 national banks. The capital of the national banks is 49.67 per cent of the total, so that a majority of the banking capital of the United States is now outside of the national-bank system. The individual deposits of national banks are only 33.3 per cent of the total individual deposits, so that two-thirds of the individual deposits of the United States are outside of the national-bank system. The State banks that report—or at least as figured out here—number 17,823; but they have over 50 per cent of the capital and over 66 per cent of the deposits. To show how that would affect the bank in Missouri——

Senator NELSON. How many?

Mr. JONES. The number is 1,364. There are only 133 national banks, and 1,231 State banks and trust companies.

Senator HITCHCOCK. How does it happen that the number of national banks is so low in Missouri?

Mr. JONES. I think it is a perfectly reasonable thing that there is no philosophical reason for the national bank in the rural districts.

Senator HITCHCOCK. My State of Nebraska, which is much smaller than Missouri, has 300 national banks.

Mr. JONES. I just looked it over here the other day when we had the report, and in Kansas——

Senator REED. Can you give us the capital of the banks in Missouri?

Mr. JONES. In Missouri, for instance, there are 1,364 banking institutions; 133 national banks, with capital of $36,000,000; State banks, 1,231, with capital of $53,000,000, leaving off the odd amounts. The deposits of the national banks of Missouri are $152,000,000—that is the individual deposits, whereas the individual deposits in the State institutions are $298,000,000, nearly double.

Senator REED. Do you know whether the deposits include the whole bank deposits?

Mr. JONES. No; this is individual deposits. I did not put in the bank deposits, because that would be confusing. In Kansas there are 1,110——

Senator NELSON. Of all kinds?

Mr. JONES. State banks, national banks, and trust companies; 206 national banks and 904 State banks and trust companies. The national banks have a capital of $11,367,500; the State banks have a capital of $19,000,000; and the national banks have in deposits in Kansas $61,000,000, and the State banks have $99,000,000, showing the larger amount in capital and individual deposits.

In Minnesota there are 1,031 banks of all kinds; 272 national banks, with a capital of $32,800,000; and of State banks there are 759, with capital of $17,500,000. There the capital of State banks aggregate something less than that of the national banks.

Senator NELSON. Because they can organize there with $10,000.

Mr. JONES. In individual deposits the national banks have $175,000,000, and the State banks have $148,000,000.

I have not gone through the various other States. I have mentioned these merely because it would bring home to the gentlemen of this committee just what it is in your own State, and you can see that any legislation that is unfair to the State banks and trust companies would be unfair to your people.

Senator NELSON. Unless we got them to go into the system voluntarily, we would have less than half of the banking capital of the country?

Mr. JONES. Yes.

Senator NELSON. In this system—we could not have half.

Mr. JONES. And then if you do not make it so that they can come in, and you enlarge the powers of the national banks, as is proposed here, you will make it a great hardship upon the people of those States, and you will force them to get out of the State institutions.

Senator REED. Mr. Jones, do those figures of your embrace savings banks?

Mr. JONES. Yes; these are given of all the banking institutions of those States. These figures are taken practically from the comptroller's report.

Senator WEEKS. Those are all stock savings banks in those States, are they not?

Mr. JONES. I do not know how it is outside of Missouri. In Missouri we have no stock savings banks at all.

Senator WEEKS. I do not think there are in Missouri savings banks, nor in any of those States that you refer to.

Senator NELSON. We have just one in Minnesota.

Senator REED. Mr. Jones, you do not mean we have no savings banks in Missouri?

Mr. JONES. I mean no savings banks in the New England sense of the term—no mutual savings banks. The trust companies do that business in Missouri. I say we have over 20,000 depositors. In St. Louis the trust companies have over 100,000 depositors. We touch the people; we come in contact with the individual. For instance, I have more customers in number in the Mississippi Valley Trust Co. than any three national banks in St. Louis all put together. If the Simmons Hardware Co. wants to do business it usually goes to a national bank. If a vast number of its employees, as individuals, want to have accounts they go to the trust company. And that is perfectly philosophical—if I should go into that to show the reasons why. It has been because of public demand. These people come and do business with us not because they have to. They do not do business with us after the manner they do with the sheriff or public administrator—because of the law which forces them to do it—but only because as free American citizens they find it to their interest to do business with us. That is true all over the country, and the people have these State banks because they, as a rule, are more responsive, because of their broad powers, to the needs of those several communities.

Then, before I get off of it and forget it, I want to draw your attention, when we are talking about the enlargement of the national-bank system, to one clause in this savings-bank section of the bill, on page 47, line 17, and I would like to ask any of you gentlemen who are lawyers if you ever read any bill that permitted a corporation to be formed that did not enumerate the powers of the corporation and set them out. We have heard a great deal in the last few years in this country about restricting the corporation to its charter powers. There has been a great many prosecutions by the Attorney General because the railroads or others did not stick right down to their charter powers. We find a provision in this bill, line 17, page 47, reading:

> The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national banking act.

I challenge any man to show a parallel for that in legislation of any State in the Union. As to these savings departments, every restriction of the national-bank act as to classes and kinds of business can be removed.

Senator REED. You think that is putting a large amount of power in individuals that ought to be reposed in the law?

Mr. JONES. Why, I do not think that any State or any legislative body ever gave a corporation any such powers—any corporation, anywhere—to form a corporation and then say every restriction upon the kinds and classes of business are removed.

Senator REED. May be removed by some individual?

Mr. JONES. All may be removed. I do not know what the reasons are for that provision in this act; I do not know why that should be in there.

Senator SHAFROTH. What section is that?

Mr. JONES. Page 47, line 17.

Senator NELSON. Your criticism is evidently fully justified.

Senator SHAFROTH. What amendment do you suggest?

Mr. JONES. I suggest striking it out.

Senator SHAFROTH. Striking out from line 17 down to where—24?

Mr. JONES. I should strike out from the beginning of the sentence to the end of the third word in line 21, leaving it:

It shall be the duty of the said board within one year after its organization to prepare and publish rules and regulations for the conduct of business by such savings departments.

Senator HITCHCOCK. Then you do believe there should be some restriction upon the discretionary power of this board, Mr. Jones?

Mr. JONES. Why, certainly. Certainly, I should not advocate any other thing than restriction upon the discretionary power of the board.

Senator HITCHCOCK. In answer to my other question you rather thought that they should be allowed to make regulations without any limit?

Mr. JONES. Oh, no; those regulations I think plainly would have to be in line with the powers——

Senator NELSON. They would have to be within the pale of the law?

Mr. JONES. When you form a corporation and give it specific powers, and then give somebody power to make rules and regulations to carry it out, it means rules and regulations under those powers as set out.

Senator BRISTOW. To carry out the specific, definite authority that is conferred?

Mr. JONES. Yes.

Senator POMERENE. My understanding of it was that the real purpose of this provision was to permit them to reduce the amount of reserves as far as it applied to savings accounts and to permit them to loan on mortgages, etc.

Mr. JONES. Whatever powers you are going to give them, it ought like every other act to enumerate the powers.

Senator NELSON. By a part of the section you permit them to keep only 5 per cent reserves in their savings deposit, so there is no necessity for that?

Senator POMERENE. I think that is entirely too broad.

Mr. JONES. Do not take the bridle off; do not form this corporation and then take the bridle off and turn it loose. I understand in many New England States there is a tax on savings deposits that the savings banks have to pay.

Senator HOLLIS. That is put on to take the place of ordinary taxes. There is no tax on the privilege of doing business. But, for instance, where the tax rate in my State is about 2 per cent, savings banks are taxed only three-quarters of 1 per cent; that is a benefit given to encourage mutual savings.

Mr. JONES. What would the national bank have to pay on its savings deposits?

Senator HOLLIS. I do not know. I was not informed about national banks.

Mr. JONES. The national bank would not have to pay any.

Senator HOLLIS. They would pay on their surplus?

Mr. JONES. Only on their capital and surplus?

Senator HOLLIS. Yes.

Mr. JONES. And they could have a bank with $1,000,000 capital and have $40,000,000 savings deposits and pay nothing on these deposits, whereas the savings bank just across the street which had $40,000,000 deposits would have to pay thereon 1 per cent or three-fourths of 1 per cent, and that would be very unfair. This whole savings business does not belong in the national bank.

I would just like to present——

Mr. WINSTON. Mr. Jones, may I just ask you one question?

Mr. JONES. With pleasure.

Mr. WINSTON. In our State, for instance, the national bank pays no Government tax upon its income and on its circulation to our community and to our city, and to our State we pay on our surplus and undivided profits—cash on the books—less real estate, which is taxed as real estate. I do not think that our mutual savings banks are taxed anything—that is, if there is money on deposit—assets; and a mutual savings bank in Minnesota is not taxed on its profits.

Senator NELSON. That is my impression, too.

Mr. WINSTON. That is my impression.

Senator REED. In that case, do they not require the man who has the money in the savings bank to return that with his assessment?

Mr. WINSTON. I do not know. I am inclined to think that he has to return it himself.

Senator NELSON. He has got to make it in his return and is assessed for it.

Senator REED. Where they have these laws, I am addressing the Senators here from New England, where they have a law in their States—New Hampshire, Massachusetts—providing for the taxing of mutual deposits, when that is done, is not an individual allowed to deduct the amount of his deposit in the mutual bank from his tax return?

Senator HOLLIS. He does not return any savings bank deposits at all; it is taxed by the State.

Mr. WINSTON. As I understand, Mr. Jones, there is a tax of 75 cents on the dollar.

Mr. JONES. In Missouri the national banks and State banks are taxed exactly alike. We pay on capital and surplus, and we have no mutual savings banks. The reason the mutual savings bank is not taxed is because it is not a money-making institution and has not any capital and surplus, and it is run for the wage earners of the community—a sort of eleemosynary institution, and the law does not tax that.

I do not want to get off into that question, but I would like to present this view to you on the question of the enlargement of the national bank in the savings department. Under the Constitution there is no special provision authorizing the incorporation of any bank, and a Federal bank is permitted only under an implied power. The whole thing was the subject of decision of the Supreme Court of the United States by Chief Justice Marshall in the case of McCullough *v.* Maryland, and the bank was justified on the ground that the Government might need a currency, might need a fiscal agent, and might need to facilitate commerce between the States. It was under that construction of implied power, which under that decision was limited to banking—I will show you a reason in a moment why I

emphasize that word—that is, all the courts have held that there was an implied power to create a bank to do banking business. Now, after all the old troubles which were had with the old United States banks, and they were out of existence, when the present national bank act was passed, it was not even called a "banking act." The title of the act was "An act relating to currency," and the prime cause in incorporating a national bank then was that it should make a uniform currency and that they should have some institution to buy Government bonds and help the Government to finance itself. They were very particular in that act to specify that after it was organized it should then begin "the business of banking," and that it should do banking in these specific ways set out in the act. It did not have any general powers; there was not any bridle taken off and everything was very strictly put in. It was permitted to loan on personal property.

The power to loan on real estate was not given. Real estate could not become a subject of interstate commerce. There was no reason for it to step in there; that was left to the States. And you have had 20 times, I suppose, or many times, bills here in Congress to permit national banks to loan on real estate, and it has always been voted down. The Democratic Party has been throughout its history opposed to the enlargement of the national banking system, predicated largely upon the fact that in all lines of business the States can take care of themselves and inaugurate the means of doing business, and the only excuse for a national bank was that it do something of a Federal nature which could not be done by the State, which was to provide the currency and to buy the bonds. We find a situation here wherein you are taking away from the national bank the right to provide the currency and you are taking away from it the duty of purchasing Government bonds, destroying the reasons for its existence, and yet enormously enlarging its powers. What for? I have heard a good deal of discussion here in the last two or three days, and the whole sentiment seems to be that you mean to protect the national bank; that this was only a national bank question. Why? Why, I ask you, gentlemen? If you destroy the Federal reason for the existence of a national bank, what is the purpose of encouraging the multiplication of national banks? As long as you have banks, largely under one system, and all the banks in that system, the traces will all stretch at the crack of one whip; and if you make such legislation here now as is going to drive all the State banks and trust companies into the national banks, you will centralize the money power in a way that will put it where it will have to control politics to protect itself, and the minute the public understands that you are doing that, then the public are all on one side and the banks on the other, and we will not live long enough, any of us, to see the banks out of politics. I do not think that is necessary under this bill.

I think the general propositions in this bill can be carried out and carried out to meet these objections, and I think there is a perfectly consistent way to do it. Speaking to Democrats and men who are of the dominant party, I think there is a perfectly consistent way for this legislation to take place that is in harmony with the history and traditions of the Democratic party. The fact that you mention "Democratic Party" does not mean that without that party in the various States State rights are to be ignored, because

nobody in recent years has made with respect to State rights a more excellent exposition of that doctrine than Senator Root.

I see no reason why you should specially enlarge the national banks under this bill, especially when you are taking away the Federal reason for their existence. You say they ought to do interstate commerce. Well, if that is the only reason you have, then we might as well say we need a national milling company, that we need a national tobacco company, a national steel company, and a national insurance company, none of which were contemplated by the constitution, and the only reason for a Federal bank under an implied power was that it was necessary to do something that could not be done by the States. We did need a national bank—a national bank organized to provide a uniform currency. You are doing that by creating these regional banks. Having done that, I see no reason why the State banks can not come in and subscribe for that stock and do business with it just as well as a national bank. I do think there should be a Federal standard of excellence fixed. If the State institutions are going to come in and subscribe for this stock, there should be a Federal standard of excellence fixed so as to preserve and protect the regional bank. You have provided for that in this bill by saying that we shall keep the reserves, and that we shall be subject to examination—that is, examination to see that we are safe, that we comply with the laws of our being, and you do not have to restrict it to this particular kind of business or to any other kind of business.

The trust companies, with broad powers in the various States in the Union—I say that, and I say it assuredly as one familiar with the facts, that there are no classes of financial institutions in America, not even the savings banks, that have protected so well their obligations as the trust companies. There have been fewer failures, less losses, than in any other system than any other class of banks—State banks, savings banks, or national banks—and the fact that they do accomplish that result when they have powers outside in various other kinds of business shows that these outside powers are not at all inconsistent with the other obligations that they have.

Senator HITCHCOCK. Mr. Jones, would the trust companies have been able to pass through periods of stress with their small reserves and their large demand obligations if it had not been for the fact that in those cases they were able to lean upon the national banks?

Mr. JONES. In the great stock banks of London they keep no reserves, practically.

Senator HITCHCOCK. I realize that, but the obligations are different.

Mr. JONES. I will answer your question if you will just let me give you the facts. They keep no reserves, because they have a reservoir to which they can go.

Senator NELSON. They can go to the Bank of England?

Mr. JONES. They can go to the Bank of England. One of the defects of our system here has been the reserve system of the national banks. It has tied up a lot of money and put it absolutely out of use. I have got to keep 25 per cent in my national bank, and the minute I get down to that 25 per cent reserve I can not touch it. That money is of no use. If I go under my reserve and receive deposits while I am under my reserve and my bank should fail, there is not a jury in the country that could not send me to the peniten-

tiary because I received deposits when in a failing condition. A man is in a very hazardous position who attempts to meet the necessities of his customers under that national-bank act, because he can not go under that reserve; and the reserve does not perform the real functions of a reserve.

One thing that led to the incorporation of trust companies and State banks was to get away from that. They could not get the bonds—enough of them—to make the circulation, and they went into trust companies, and the trust companies did just like the joint-stock banks in England—did not keep large reserves, but kept their reserves not with one reservoir, like the Bank of England, but with divers reservoirs, namely, the national and large State banks, and therefore they do have to have some place to go, and that is what this regional-bank system will provide. It will make a reservoir to which we all can go, and with far better assurance of being taken care of than to have to depend upon the accommodation—Senator Bristow objects to the word—but the accommodation of the big banks in the cities, to whom we might have to go if we needed to raise money.

Take it in New York before 1907, when trust companies had over one thousand millions of deposits and small amounts of reserves. Nobody had ever lost a dollar of deposits; no depositor had ever lost a dollar under the trust-company act in the State of New York. But they came in and made them keep reserves, put it up to 15 per cent, and when the trust companies began to take out of circulation that reserve and put it down in their vaults it made them retire practically $150,000,000 and contract the currency to that extent. I do not know how correct it was, but I have always felt that was one of the prime causes of the panic of 1907. Our reserve system has not been scientific at all, but there was a public furore in favor of it. We had it in our State. We ran our company just like the English joint-stock banks, and we did not keep this large amount of reserve, but one of our people got the idea that there was something wrong and went up to the legislature, and we are now required by State law to keep the same reserve as State banks, and this also according to clearing-house requirements. The money we put down in our vault is of no use to us and does not perform any function at all.

Senator HITCHCOCK. You did not quite answer the question, whether trust companies with their small reserves would have been able to go through periods of distress if it had not been for the dependence that they had and with the privilege they had to have of leaning upon national banks with their larger reserves.

Mr. JONES. No more with national banks than with State banks. The question of reserve does not depend upon the amount of deposits; it depends upon the nature of the deposits. There is a perfectly philosophical difference between the lines of discount of the national bank and the trust company. If I had an opportunity to go into that I could make it perfectly plain. A national bank has its commercial deposits and lines of discount and the obligation to distribute its loans among its customers, emphasized by the fact that it can not loan over 10 per cent of its capital to any one man. For the first 20 years of the existence of the national banks nobody thought they had the right to receive any except demand deposits. They have to keep a large reserve. But with the trust company—which has what we call trust depositors, in contradistinction to bank deposi-

tors—the individuals who do not need a line of credit, we do not need the same reserves as a national bank, because the nature of our business is different.

If we may emphasize this: Take the savings banks up in New England. As a matter of fact they do not average having 5 per cent reserves, and you are recognizing in here that this amount of reserves is affected by the nature of the deposits in the provision of the savings department of the national bank when you have them keep only 5 per cent reserves. We, as trust companies, should not keep large reserves; we do not need them. We do not have the same amount of demand depositors, and the demand depositors that we have are from a class of people who are not doing the business in the way that the depositors of commercial banks do. Does that answer that?

Senator HITCHCOCK. It is not a very important matter, but I thought and it has always seemed to me that the trust companies would not be able to exist with their style of doing business if it had not been for the fact that they also had the other banks, which are really the resource in times of stress.

Mr. JONES. Of course, if all of them keep money tied up there in their vaults there is very little left for circulation to meet the demands of the community.

Senator HITCHCOCK. I think perhaps you had better go on with your statement.

Senator WEEKS. Mr. Jones, I think you are quite right in saying that the nature of the deposits and the character of the business done should determine the amount of reserve by a bank, and, referring to the New England savings banks, you must remember that they have the right to give 30 days' notice to their depositors, and that is a sufficient reason why it is not necessary for them to carry large amounts of reserve.

Mr. JONES. Exactly—the nature of their deposits.

Senator WEEKS. And they carry their balances, except what they need for daily use, with the local national bank, and they depend upon the local national bank to furnish them with circulation they need.

Mr. JONES. Not altogether with the local national banks, because I doubt not but that a great many have accounts with the Old Colony Trust Co., and under the law of your State the savings banks can deposit with State institutions as well as national banks.

Senator WEEKS. That is true; but generally speaking, they are kept with national banks.

Mr. JONES. I am only saying the law permits otherwise, so that, Senator Hitchcock, it is not reliance purely on the national banks. A great many of the savings banks in New York keep their accounts with the Farmers' Loan & Trust Co. and are not any more dependent on the national banks than they are on the trust company.

Senator WEEKS. Trust companies in Massachusetts have deposits of that character. I think they carry a reserve which is similar to the reserve required of national banks.

Mr. JONES. Certainly, whenever the nature of their business requires it in order for them to be safe.

I just want to direct attention to one other matter.

Senator SHAFROTH. Is it your theory, then, that the national bank should not be accorded the privilege of having a deposit——

Mr. JONES. Savings deposit?

Senator SHAFROTH. Savings deposits.

Mr. JONES. I think they should not. I think the national bank, if it continues to exist now, with the fundamental reasons having departed—currency and Government bonds—it should be limited to the question of handling stuff subject to interstate commerce.

Senator SHAFROTH. Then you think the savings deposit companies should be prevented from having commercial accounts?

Mr. JONES. I think not. You certainly would not take away from the States and the people in the States the right to create any institutions to handle their business that they wanted to. It is not necessary. The national bank was built up and it had been running 20 years before anybody ever thought it had a right to do anything but receive demand deposits, and I have been told that the Comptroller of the Currency—I can not say that officially—but I think it is true that Comptrollers of the Currency have ruled that they had no right to receive anything but demand deposits, and if you will allow me. I will just take the last report of the Comptroller of the Currency, on page 11. It says:

> Deposits in commercial banks are presumed to be subject to demand, but whether such institutions have the right to enter into different arrangement with their customers is a matter for determination by the courts.

That says a "matter for determination by the courts." The Government never in the history of the national bank act has gone into the courts to see what their powers were, not in a single instance: and yet they have been permitted to have over $800,000,000 time certificates of deposit and over $700,000,000 of savings, with the comptroller himself saying in the last report here that it was so much a matter of doubt that that is a "matter for determination by the courts" whether they had the power to do it or not.

Senator SHAFROTH. Mr. Jones, if you were to limit the national banks to simply receiving commercial accounts, and then give to the trust companies the power not only to receive commercial accounts but also to receive the savings accounts, you would give more power and it would be more desirable for a savings-deposit institution or trust company to become a part of this system than it would for a national bank?

Mr. JONES. I think so; but I would not have a Federal institution when there was not a Federal reason for it.

Senator SHAFROTH. Then would not all the national banks dissolve and go into trust companies?

Mr. JONES. Those that wanted to continue doing business as great commercial banks, as many do, would continue as national banks as they are in many of the cities. But if there is no Federal reason for their existence, why should the Federal institutions be encouraged? I am not seeking a fight on the national bank. I think they are all right. Let them go along and have the business, and when it comes to enlarging the powers in the way it is put in here, I do not see any reason for it, and I believe that the tendency should be to elevate the standard of the State institutions; I believe it is more consistent with the theory of our Government. If you have them under 48 different jurisdictions no one whip can ever make their traces stretch together.

Then they come in as members; let your national banks go along as they are; and those that want to do a national-banking business for commercial purposes, if the demands of the community are such, let them be incorporated. If the people of the several States want to have their own institutions responsive to particular needs, let them have it so, but do not drive them all into Federal institutions. That has been the purpose. Secretary MacVeagh in various speeches in the last campaign said there ought to be only one system and that the Federal. Old Hugh McCullough, in an official report in a year after the national-bank act came into existence, said that it required no prophet to say which system would survive.

Senator SHAFROTH. Would they be driven into the Federal system if you are going to give preferences to the savings-deposit institutions?

Mr. JONES. The national banks never had any right to do the savings-bank business, and never did it until the last 20 years. There were over 5,000 of them, and they had been successful. By reason of the fact they did not do a savings-bank business the savings banks in the various States had grown up and become successful.

Senator SHAFROTH. If you are forming one system and trying to get them all to come into it, it seems to me you ought to treat them all alike and give all the same powers.

Mr. JONES. You should treat them all alike by allowing everyone to come in under its charter as it is. If my charter makes me a trust company, with certain trust-company powers, and I am safe by your examination, let me come in with my charter power as it is; and if a State bank comes in with different charter powers, and it is safe, let it come in; if a national bank is safe, let it come in with its charter powers. I should say that this bill is no place to enlarge the powers of the national banks. If you want to enlarge those powers, when you pass this bill you can not keep the Missouri Legislature from changing the powers of State banks and trust companies there, and the States can not keep you from amending the national-bank laws to suit yourselves; but if you want to make this bill a success and make it popular, my theory is let the institutions as they are come into it. We can not deprive Congress of its right, and if you want to amend the national-bank act and its powers, amend the national-bank act and bring that particular amendment up on its merit, where it is not involved in all this other system. But treat all alike, fixing their standard of excellence to see that they are safe.

Senator SHAFROTH. The result of that would be that all of the national banks would be State institutions or trust companies?

Mr. JONES. They did not do that during the time when they built up, and the State institutions had all these powers and the national banks had these restrictive powers.

Senator SHAFROTH. The trust companies have been growing with their powers, have they not?

Mr. JONES. So have the national banks. If you look into the percentage of the deposits which the national banks had in 1890, it is about the same which they have now—the two classes of institutions have been going on together.

Senator HITCHCOCK. I think we ought to make some progress. Other witnesses are coming on who desire to be heard.

Mr. JONES. I beg your pardon, gentlemen.

Senator HOLLIS. I find this most informing, and I would like to ask the witness, if I may, Mr. Chairman, what is the advantage that the national banks have now, aside from issuing currency? How can they compete with trust companies at present?

Mr. JONES. They have the prestige, in the first place, of being Federal institutions, and a great many corporations, as a matter of principle, will not do business except with a national bank. Take the Pennsylvania Railroad, for instance. That company will not keep an account except with a national bank. I merely instance that as one of those concerns who feel that way. The national bank wants that prestige. They have had certain profits that they got from circulation, and they have been free from the domination of State control. Those are the main things. Then they have had a third privilege of jumping over the bars and paying very little respect to their charter powers and violating them at will.

Senator REED. I want to ask you about that.

Senator HOLLIS. Do you think they have violated their powers any more than the State institutions have their restrictions?

Mr. JONES. I think they have.

Senator HOLLIS. Is it not a further matter that a national bank——

Mr. JONES. I could show it to you, if you want to look at the figures.

Senator HOLLIS. Is it not a further matter that national banks have that, some of them, and through those reserves have had the advantage of Government deposits at various times?

Mr. JONES. Oh, yes; that has been an advantage.

Senator HOLLIS. But you would put the prestige of being a national institution at the front of the advantages of national banks?

Mr. JONES. Yes; I think that has been at the front of it.

Senator REED. Mr. Jones, since the matter has been suggested, if it will not interrupt the thread of your discourse—you speak about these banks violating their charter powers. I wish you would give the committee the benefit of your views on that, telling them where and how.

Mr. JONES. Well, if I may do that without being put in a position of making an attack on the national banks, which I do not desire to do, because I do not know but we may have to have one to get along under this system pretty soon; but just take this, for instance: They were given the powers to do a banking business only. Logan County, Ky., on one occasion issued some railroad-aid bonds, and a national bank made a contract to buy some of them but refused to carry out the contract. The bank plead ultra vires and the court said it was too plain for argument, and that it was not within their power and relieved them from their contract.

The courts have over and over again decided they had no right to act as a broker for bonds or to buy and sell them. I am not giving an opinion. I am just telling what the courts have over and over again decided. You hardly pick up a financial paper, however, but what you will read of a national bank running a bond department, and if you will look into the comptroller's figures here you will find they have got some $400,000,000 of railroad bonds and some $300,000,000 or $400,000,000 of other public-service bonds, all ultra vires, but nobody except the Government can raise the question of ultra vires except the bank when it wants to get out of its contract; and in

the history of the national bank act the Government has never raised it to see what it is. National banks act as registrars and transfer agents for millions and hundreds of millions of securities, and incur liabilities on that account, I think, in express violation of an express provision in the national bank act. Nobody has ever raised the question that it can not do it. They have kept safe deposit vaults, with the liabilities that go with that, outside of their charter powers to do it. They have gone into all of this question of savings department. After the comptroller has let them get in $700,000,000 or $800,000,000 of this he says it is still a matter with the court whether they have such powers; that nobody but the Government can raise the question. If the national bank does things that are wrong, the comptroller under the regulations is given the power to have them dissolved, and never in the history of the act has he gone into court for such a result. They have been allowed to do a good many of these things. They can not loan on real estate, under the law, and yet they could do it, for the courts have decided that nobody but the Government can raise the issue. They do take mortgages and foreclose them, and when they have made those loans they are protected.

Senator HITCHCOCK. All this time the comptroller has had the power to restrain them from violating the law?

Mr. JONES. Yes; and the fact that he has not done it is what makes me have the impression, as a citizen not as a banker, whose children are going to live in this country long enough after I pass out of the banking business that I should not want to see all the institutions driven into Federal control, and where it may be left in such shape that nobody can raise the question but the Government, and then you have got to fight the Government or fight the whole system. If you drive the 17,000 State banks into this, they nor anybody else will dare to stand up against the political institution, and you will have the same old condition that existed under Andrew Jackson.

Senator HITCHCOCK. Under this provision the Federal board may commit some violation and there is practically no way to remedy it?

Mr. JONES. There would be a much easier way. I would prefer to attack the Federal board when I had my Senators and others to assist me in raising the question than to have to let the Government make those loans, and when I wanted to attack it have to attack the Government itself. I would be far better protected.

Senator HITCHCOCK. Could you not do that under the comptroller now through your Senator, if you desired?

Mr. JONES. Yes.

Senator HITCHCOCK. The same path has been open to the comptroller that will be now open to the Federal board?

Mr. JONES. If it had been so, and if the State banks and the trust companies had not grown so much, it would have been corrected and those things remedied.

Senator HITCHCOCK. What reason have you for thinking that the Federal board would observe the law any more carefully than the comptroller, who is sworn to do so?

Mr. JONES. I think if you have three Cabinet officers and four men selected with the approval of the Senate that we could find it very much harder to get seven men to follow a policy of nonobservance of the law or lax recognition of it here than you could with one man.

Senator REED. Let me call to your attention, Mr. Jones, that the Cabinet, of course, would be the same as at present, and very likely the majority of the Senate would be of the same political faith. Now, you have a board the Cabinet members of which are selected by the President and the other members of which are nominated by the President and confirmed by the Senate, and the majority of which is likely to be of the same political faith. Now, would that constitute a safeguard under all conditions?

I am free to say that if I had to put the business of the country under the control of a few great bankers or under the control of the Government, I would take the Government. But if it be true that, with the almost absolutely arbitrary powers now possessed by the Comptroller of the Currency, for 50 years banks have been violating their charter rights and have pursued that course until it has become a system recognized in the business world without interference—if that be true, is there not danger under this proposed system of the same dereliction on the part of Government officials?

Mr. JONES. It is always possible for a man to go wrong. The stockholders of every bank elect their own officers and give them power to do things, and the depositors put their money in their power. In every State we elect our officers and trust them. We elect our Federal officers here, and all of my liberties and rights of person and property I submit to the power of the men elected by the people. And if I were afraid of the power that would be exercised by the President and a majority of the Senate of the United States, of whatever party, I should want to change this form of Government. I think we come as near getting protection in that way as under any system where we have human beings elected to do these things.

If I can trust the people for my liberty and my property and give them the power to legislate on all my rights, I believe I can trust that same power, under the wisest restrictions we can make, to administer this matter properly, because the men would be governed by public sentiment. We all recognize the protection of the law. We can travel all over this country without any weapons of defense, trusting to public sentiment and the will of the people to protect us. Now, the President has to select these men and the Senate must concur, and they must respect public sentiment.

It is possible, of course, to go wrong. It is possible for my right hand to take up a pistol and kill somebody, but you do not, because I can do that, want to cut off the right hands of all the people of the country.

Senator REED. Mr. Jones, I do not want to get into an argument with you, but I want to call your attention now to an essential difference, and see if there is not something that could be done to this bill that would make it safer. I want to submit it to you. You say your liberties are in the hands of the Senate and of Congress and the governor of your State. I deny that utterly.

Mr. JONES. Under the law.

Senator REED. Your liberties are in the law—in the courts—and the protection consists in the fact that you yourself, as an individual, under the law can make your individual appeal and demand your trial by the law, and in most cases by a jury of your peers; and you have the power of initiation.

Now, here is a system to be set up in which the right of regulation is vested in a board in a similar way to the right of regulation that is now vested in the comptroller. The law has been violated all these years, as you say, and no check placed upon it, because the law could only be invoked by the comptroller. But suppose that the right were vested in any interested citizen to appeal to the law and to the courts to stop a violation. Would not that be a safeguard?

Mr. JONES. That might be. I think there ought to be some such way.

Senator REED. I think if we added that to this regulation—I mean put that thought in proper form so that in the event there was a denial of right there would be some place for an adjudication——

Senator POMERENE. What rights?

Senator REED. The rights that are prescribed by the bill. If you have prescribed rights and privileges in the bill, instead of leaving it to human discretion, we should get a better bill.

Senator POMERENE. You would have all the discretionary powers of this body subject to revision on appeal?

Senator REED. No; I mean that in the working out of this system there must at some point be left discretionary powers, but they ought to be as limited as possible, and the rights ought to be absolutely prescribed as far as possible, and if a prescribed right is denied there ought to be some way by which the individual who suffers can have a right of appeal to some tribunal.

Mr. JONES. At the same time, Senator Reed, nothing could be more dangerous than to try to make hard and fast lines on a lot of questions that must be responsive to public influence. You have to have discretion somewhere; you have to leave it open somewhere. Fix somewhere, if you please, the right to raise objections to that, but you have to have a discretion, and you can not make hard and fast lines on everything. This is a government of men, and we have to have men to administer it.

Senator REED. No: it is a government of law.

Senator HITCHCOCK. That is our point; we think this should be a government of law——

Mr. JONES. A government of law administered by men.

Senator REED. That is correct: and if men do not administer it properly there is nearly always somewhere a way to make them do so.

Senator BRISTOW. Mr. Jones, you spoke of the exercise of the powers by the officers, and you referred to the illustration of a pistol; you said you might kill a man, but you would not. As a parallel case to the exercise of the powers of this board by the comptroller, if you kill a man, the law takes hold of you and deals with you in a very serious way. That is forbidden by law. The comptroller, according to your statement, has permitted the law to be violated, and nobody calls him to account for permitting such violation or calls to account the institution that violates it.

Mr. JONES. In the early days out in Kansas many men killed other men with pistols, and they were not called to account for it.

Senator BRISTOW. That was in the days before civilization had extended its protecting arm there, and we hope that period has ceased to exist with regard to financial institutions as well as with regard to men.

Mr. JONES. I think it has.

Senator REED. Applying that illustration, if a man shoots another, you take him up and hang him; but if you make it discretionary—vest the power in him—he would believe that he did it in his discretion.

Senator POMERENE. With the power of the President to remove, and with these delegations coming on here to Washington, I think you would be pretty well protected.

Mr. JONES. I believe you are protected under this bill. As a banker, I feel that you are.

Senator BRISTOW. Now, with respect to the question of determining the amount of currency which we should have as a circulating medium, do you believe that ought to be left to the discretion of a board?

Mr. JONES. I think the system as proposed here, that was suggested by the bankers' currency commission, of having a 50 per cent reserve, and a graduated tax, is much better than the system outlined in this bill. I do not like that system, and I think you would likely have to amend that. I think the system proposed by the bankers of a 50 per cent gold reserve—there is the limit of expansion. If we have a 50 per cent gold reserve and then have a graduated tax when the reserve board gets down below that, the plan suggested by the bankers, I think, is quite intelligent and an improvement on the bill.

Senator BRISTOW. Do you not think the law ought to prescribe such conditions as those?

Mr. JONES. That is exactly what the bankers suggested—prescribing the conditions and making the law act automatically according to the reserves that are there.

Senator SHAFROTH. Did not the bankers recommend a 40 per cent reserve?

Mr. JONES. Fifty per cent, I think.

Senator SHAFROTH. At the Chicago conference?

Mr. JONES. No; I do not mean the Chicago conference; the original monetary commission.

Senator SHAFROTH. The bankers that met at Chicago recommended raising that from 33⅓ to 40 per cent.

Mr. JONES. I think the bankers did realize that 33⅓ was too low and that there ought to be a graduation there some way. I was not a member of that conference, but, as I see it, I believe it is a much wiser provision.

Senator BRISTOW. Mr. Jones, that is one of the strong objections which many of us have to the measure—that it permits a board of men to determine the volume of the currency absolutely.

Mr. JONES. The bankers suggested that we make conditions determine it.

Senator BRISTOW. I am not talking about what the bankers suggested, but the provisions of the bill which is before us. You spoke of the necessity for the banks and trust companies—these banking institutions—to have a place to go in times of emergency to get currency, to rediscount their paper, to take care of a troublesome situation, and said you thought the regional bank was a provision for such a remedy. Now, suppose that an individual bank, or group of banks, as has been suggested here this morning, could go direct to the Comptroller of the Currency and get the relief instead of going through the

regional-reserve association, so as to make them independent of any combination of any kind—what would you think of that system?

Mr. JONES. I am very glad you raised that question, Senator, because I have heard it discussed here, and I should like to say a word about it. Under the Aldrich-Vreeland bill it has never been used, because it was known that the minute our banks in St. Louis would come in here and try to do something under that bill everybody would think there was a panic. You do not want something that is to be used only as a last resort.

The discount system in this bill is, I think, one of the prime features in it. If you will allow me to suggest, if you will take the little pamphlet of the Monetary Commission on "The Discount System in Europe"—the most illuminating article on that subject that I have read—I believe you would be greatly entertained, and I think it would facilitate your discussion here, because there that subject is epitomized in a masterful way. It is written by Mr. Paul Warburg, of New York—one of Kuhn, Loeb & Co.'s partners.

We want a place to go as a regular thing. Under the system you suggest of using it only in emergency, the minute a bank went to use that everybody would think it was broke. It would not be of any service to us.

Senator HITCHCOCK. Haven't you a subtreasury at St. Louis?

Mr. JONES. Yes.

Senator HITCHCOCK. And do you not do business with the subtreasury at St. Louis?

Mr. JONES. We do not, because we are not a national bank.

Senator HITCHCOCK. Would everybody in St. Louis know when anybody did business with the subtreasury?

Mr. JONES. Well, I think they would.

Senator HITCHCOCK. Not necessarily.

Mr. JONES. Not necessarily, but practically.

Senator HITCHCOCK. It would depend how the law was drawn.

Senator POMERENE. Haven't you had some experience with executive sessions of the Senate? [Laughter.]

Senator HITCHCOCK. Suppose, Mr. Jones, the law provided that the bank could go to the subtreasury, just as a bank could go to the reserve board of its district. Would there be any more reason for publicity?

Mr. JONES. Not so much reason for publicity, but I believe it would be far better——

Senator HITCHCOCK. I wish you would answer that question, because I have heard the argument made and I have not been able to see the force of it. Is there any more reason why the public should know if a national bank goes to one of the 50 subtreasuries than there would be if it went to the reserve board?

Mr. JONES. There is not any difference, provided your system is something that makes the discounting an every-day business; but under the system that Senator Bristow spoke of it is only used in an emergency.

Senator HITCHCOCK. Suppose the law provided it should be used not as a matter of emergency but as a matter of right, based upon the capital of the bank and the securities that it deposited.

Mr. JONES. The subtreasury would not have the depositors—I do not think it would be wise to have the Government engage purely in

the banking business and that I should have to go to them and borrow money of them. I would much prefer——

Senator HITCHCOCK. You have abandoned the idea that the publicity would destroy the usefulness of it?

Mr. JONES. No; on the contrary, I say if you make it something that is done every day, nobody will bother about it; but if it is only used as a last resort, as it is under the Aldrich-Vreeland measure——

Senator HITCHCOCK. Senator Bristow is not suggesting a case of last resort or desperation, but a matter of right for a bank to go to one of the 48 or 50 subtreasuries to secure the currency.

Mr. JONES. If you do that, you certainly would not make the subtreasury a discounting reservoir and have it do all the routine banking business.

Senator HITCHCOCK. Not routine banking business except to furnish currency.

Mr. JONES. I believe that if you will just study it from a banker's standpoint you will see it does not meet the case.

Senator SHAFROTH. It would require banking machinery at each subtreasury?

Mr. JONES. If you will just read that article that I referred to——

Senator HITCHCOCK. I have had the pleasure of reading that literature already, but I have never had any banker explain to me why, if the Congress established 50 subtreasuries, with a bank examiner in each one, the national banks or the privileged banks could not go to the subtreasury with their notes and secure the currency just as easily as they could go to the reserve bank and secure the currency.

Senator NELSON. The Government would have to be a depository of all that commercial paper and have to collect it.

Mr. JONES. Yes, sir: and that business could not be done without a bank. You have to have all the machinery of a bank, with depositors——

Senator HITCHCOCK. No; it requires no depositors at all. It takes these pounds, impounds them, furnishes the currency, and when the notes are paid——

Mr. JONES. They would have to have a system of redemption.

Senator REED. The bank has to redeem them or quit paying interest on them?

Mr. JONES. You can not make a hard and fast line as to when you are going to have them retired.

Senator BRISTOW. You are overlooking the fact that this regional bank has got to do with the Government exactly what you are complaining of the group of banks doing with the Government. The regional bank is a group of banks. They have to go to this board and get the currency and deposit their collateral. We are inquiring whether, instead of combining those banks into 12 parts, they can not be scattered and made more democratic by permitting the region in a smaller way to meet its own necessities without being compelled to go to the large region and be subject to its decision.

Mr. JONES. I would much prefer to go to that board of nine directors of the regional bank and have them pass on my collateral than to go to the subtreasury.

Senator HITCHCOCK. Suppose you were running a national bank at the present time. You would be inspected several times a year by one of the examiners of the Treasury Department?

Mr. JONES. Yes.

Senator HITCHCOCK. Now, if the Treasury Department is now inspecting your bank for the purpose of seeing whether it is solvent, why can not the same official pass upon that paper?

Mr. JONES. He might.

Senator HITCHCOCK. He is actually doing it; the machinery is in existence.

Mr. JONES. But then you would have a board of people instead of a political officer to pass upon it. I understood you gentlemen were talking about the danger of having political control and the possibilities of what might be done, and yet you are now talking about taking it away from nine selected men——

Senator NELSON. Twelve times nine.

Senator HITCHCOCK. I am not suggesting this in any but a tentative way, to get the views of witnesses. But in the case I have presumed—this hypothetical case—the bank, if it desired, could still deal with its present correspondents; it would still have the resources that it has at present and in addition, as a separate resource, would be able to go to the subtreasury and get additional currency. Would it not be in a stronger position than it is now? Would it not be more independent than if it had only one place to go?

Mr. JONES. It has practically only one now, because it goes to the bank it deposits with; elsewhere it has no standing. Let me say, as a practical matter, that I, as a banker, feel that I can go to my correspondents if I want them to lend me some money, and I may be entitled to it. I would much prefer to have a system that is recognized so that I can go to the regional reserve bank.

In France every banker knows he can take his portfolio and go right to the bank and get money on his bills as a matter of right. I would feel much safer under this system than at the present time, very much safer.

Senator NELSON. Here is this further fact: If the Government had to take this commercial paper and issue currency on it they would have first to examine that paper and then attend to the collection of it, and we would need an army of employees as great as we have under the meat-inspection law and under the pure-food law.

Senator BRISTOW. That never has been suggested, that the Government collect this money.

Senator NELSON. Who would collect it?

Senator BRISTOW. The banks would collect it. When the regional bank gets currency from the Government the Government has to take that collateral——

Senator NELSON. But the money must be paid to the regional bank.

Senator BRISTOW. Now, the government is doing business with different regional banks in exactly the same way in which you are now favoring the group of banks doing. The group of banks do nothing whatever that it is not provided the regional banks shall do. The Government is taking the collateral just the same for the regional banks as we suggest it be permitted to do——

Senator NELSON. No; the regional banks do the collecting.

Senator SHAFROTH. Generally the owner of the security does the collecting, however.

Senator HITCHCOCK. I want to say that there are some further questions that Senators desire to ask of Mr. Jones, and after that it

is a question of precedence. Mr. Hurlburt is here from Chicago by appointment. We have here a delegation half of whose members have been heard. Can not you wait until the others are heard, Mr. Hurlburt?

Mr. HURLBURT. I shall be here to-day and part of to-morrow.

Senator HITCHCOCK. Then I think we shall hear the rest of the Minnesota delegation.

(Thereupon, at 1.05 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Will you please continue, Mr. Jones? I believe Senator Bristow has some questions he desires to ask you.

Senator BRISTOW. No; I believe I was about through.

Mr. JONES. I understood that some member of the committee desired to ask me some further questions.

Senator BRISTOW. It was Senator Weeks.

Senator HITCHCOCK. Mr. Winston, have you any estimate you can give us as to the time necessary for your delegation to finish?

Mr. WINSTON. We will make it just as short as we can. I can not tell you; but if we can by any possibility get through this afternoon, we will do so.

Senator HITCHCOCK. We are in this predicament: We have got present Mr. D. G. Endy, and a number of gentlemen representing the National Association of Credit Men. They were to have had the right of way at 2.30 o'clock to-day, and they are under obligation to get through this afternoon so as to get away.

Mr. WINSTON. Who is that, sir?

Senator HITCHCOCK. These representatives of the National Credit Men's Association. We have imposed upon your good nature already by asking you to defer some of your witnesses.

Senator NELSON. Can we not go on? There are only three more of the Minnesota delegation to be heard, and it will not take a long time.

Senator HITCHCOCK. Well, it will take the rest of the afternoon, and unless these representatives of the National Credit Men's Association can be heard this afternoon they can not be heard, possibly, for some time.

Mr. JONES. Let me suggest that if Senator Weeks wanted to ask me a question, and he is not present, I will be here and you can go on with the other witnesses.

Senator NELSON. Let us go on with them.

Senator HITCHCOCK. Then we will have to give these representatives of the Credit Men's Association an answer, because they want to leave on the 4 o'clock train.

Senator BRISTOW. They could not get away by 4 o'clock anyway if they were to make a statement to the committee. Why could not they come back at some other time?

Mr. ENDY. It would be a great inconvenience to us. There is a meeting of our national board in St. Louis next week, and so we could not return in two weeks.

Senator HITCHCOCK. This was our schedule, to hear them to-day.

Mr. ENDY. I might say that I do not think it will take us more than an hour, and it might not require but half an hour.

Senator HITCHCOCK. Well, if it would only require half an hour for you to present your case the committee can leave until a future time the presentation of questions to you, and we can recall you if necessary. I would like to ask Mr. Winston if that is agreeable to him?

Mr. WINSTON. In answer to that, Mr. Chairman, I simply want to say this: Suppose we do not get through with what we have got to say this afternoon, then where do we come in?

Can we not take up the Minnesota delegation to-morrow morning?

Senator HITCHCOCK. I am trying to recall what I said to Mr. Hurlburt. I think I said that we would hear him to-morrow afternoon.

Senator BRISTOW. That would still give us to-morrow morning to hear these gentlemen.

Senator HITCHCOCK. Well, Senator Weeks has now arrived. We have excused Mr. Jones, Senator Weeks, during your absence. Will you please take the chair, Mr. Jones?

Senator WEEKS. There seems to be a good deal of difference of opinion, Mr. Jones, as to whether this proposed legislation as it now stands is of sufficient advantage of banks to warrant their going into the system. Of course, it is not worth while for us to pass legislation unless a considerable proportion of the banks of the country are going into the new system, because we would have a bill without any results. Now, what is your opinion as to that question, in its present status?

Mr. JONES. As I see the thing, if I were running a national bank I should want to go in, and I am inclined to think that they will go in. And that is why I am so anxious to have the bill open the door so that trust companies can go in.

Senator WEEKS. Well, is the measure in shape now so that the trust companies can not afford to go in, in your opinion?

Mr. JONES. I think so.

Senator WEEKS. Of course, the matter would be referred to your stockholders; but would you recommend to your stockholders to go into the system if it were adopted as the present bill provides?

Mr. JONES. I do not know that I am quite in a position to answer that definitely; but as the bill will necessarily be amended as it goes through, I think the fundamental propositions in it are favorable; and I believe it would be to the advantage of the institutions to go in. I have figured it out from the standpoint of the different institutions; figured from the sandpoint of the country bank, and my belief is that they will go in; the national banks will go in.

Senator WEEKS. Do you have the deposits of many country banks in your section?

Mr. JONES. Not very many. We have not canvassed specially for that class of business, and we have comparatively few.

Senator WEEKS. I supposed you are consulted by country bankers from time to time about this and similar matters?

Mr. JONES. I had some talk the other day, we invited a number of them, and we got 8 or 10 of them together, and we had 9 State bankers and trust companies from different sections of the State come together; and we met at 4 o'clock and spent until 11 o'clock in going over this bill; and while none of them had made up their minds

in advance, I think the sentiment was that it would be to the advantage of the country banks to go in, as we figured it out.

Senator WEEKS. And you were rather advising their doing it?

Mr. JONES. Yes.

Senator WEEKS. Well, did you reach that conclusion on account of the really fundamental reason that it enabled a bank to rediscount its paper so as to provide itself, in case of need, with additional circulation?

Mr. JONES. I think that is one of the fundamental propositions in the bill—fundamental advantages.

Senator WEEKS. Well, there is not much difference of opinion among bankers as to the advantage of that particular feature of the bill, is there?

Mr. JONES. I have never heard any difference of opinion; I have never heard any banker speak of it that did not feel that a proper discount system was very desirable.

Senator WEEKS. Which would you prefer, a circulation issued by the bank or banks or Treasury notes?

Mr. JONES. My theory of the matter is that it would be better to have it issued by a bank, rather than a direct obligation of the Government, which might, in times of need of the Government for its credit, have the Government imperiled or embarrassed.

Senator WEEKS. Well, do you think that is an important feature of the proposed legislation?

Mr. JONES. Well, I am not sufficiently posted on governmental finance to feel that my opinion would be entitled to any respect on that. It is only my first impression. I have never studied Government finance, and I do not know enough about the necessities of the Government to finance for itself to make my opinion of any value.

Senator WEEKS. You have expressed a different opinion from other witnesses about the desirability of making this bill so that all classes of banks would see their way to come in under one system and have a uniformity in our banking system. You think that is not necessarily important?

Mr. JONES. I think uniformity of opportunity to become members of the bank is important, yes; as to uniformity of practice, no. I think the various needs and diverse interests of the community requires different classes of institutions to respond to those needs. But all the institutions should have uniform opportunity to come in and be protected, as I have advocated, and to become stockholders under this bill.

Senator WEEKS. Then, you do not think that it is necessarily important that we provide that national banks shall have the privileges that State banks and trust companies have, to some extent?

Mr. JONES. I do not think it is necessary, nor do I think it is wise. And, if you wanted a broad statement, I do not think it is within your power. I do not see where Congress should have any power to give a national bank the right to act as trustee under a mortgage. It is not a banking proposition; it is not a banking privilege. I do not believe that Congress has the power to do that any more than it would have to incorporate insurance companies.

Senator WEEKS. I suppose it is pretty well agreed that the Government has the right to establish fiscal agencies, and that those

agencies may do other forms of banking business than their principal business.

Mr. JONES. Well, the courts have only sustained it so far as to say that Congress has the right to establish a bank which will do a banking business. How much further the courts will go I do not know. They have not found it necessary to go any further than that so far.

Senator POMERENE. Mr. Chairman, I would like to ask Mr. Jones a question.

Senator HITCHCOCK. Certainly.

Senator POMERENE. Mr. Jones, just as I came in I heard you make the statement that from your figuring you believed it would be to the advantage of the country bankers to avail themselves of the provisions of this bill in the event that it was adopted. Now, have you got those figures at hand, so that you could incorporate them in your testimony?

Mr. JONES. I have.

Senator POMERENE. I wish you would give us the details.

Mr. JONES. Take, for example, a country national bank with $50,000 capital and $100,000 deposits.

I take that merely as an example——

Under the present national-bank law such a bank would have to keep in its own vaults 6 per cent of its deposits ($6,000), on which there are no earnings, and must keep with its reserve agent 9 per cent of its deposits ($9,000), on which it usually gets 2 per cent interest per annum.

Under the new law such a bank would have to—

First. Subscribe for $10,000 stock in the reserve bank and pay in $5,000, on which it would be entitled to receive 5 per cent dividends and its proportion of 40 per cent of the reserve bank's excess earnings.

Presuming that this $5,000 would now be loaned out at 8 per cent, there would be a loss of 3 per cent, or $150 (less its said proportion of said 40 per cent excess earnings, which is not estimated in amount because so uncertain).

Second. Keep in its own vaults 5 per cent of its deposits ($5,000), on which it would have no earnings, the same as under the present law, releasing 1 per cent ($1,000), on which say 8 per cent can be earned ($80).

Third. Keep with the reserve bank, without interest, 5 per cent of its deposits ($5,000), on which it now gets 2 per cent, making here a loss of $100.

As this country bank must now keep 9 per cent of its deposits ($9,000) with its reserve agents, under the new law, $2,000 of this could be released.

I am counting that there is 5 per cent in its own vaults, 5 per cent with the reserve bank, and the 2 per cent is optional; it is immaterial whether it keeps that in its own vaults or in the reserve bank, it loses interest.

Senator NELSON. It is idle money, anyhow?

Mr. JONES. It is idle money anyhow. So that if it heretofore had 9 per cent with its correspondent, at 2 per cent interest, now it would have 7 per cent or $7,000 of that money in its own vaults, on which it would lose that 2 per cent interest.

Senator NELSON. And 5 per cent with the reserve bank.

Mr. JONES. Well, I have counted that. It would have this $2,000 released, on which it would be making a gain—it now gets 2 per cent interest on it—it would then get 8 per cent on that, making a gain of $160, less 2 per cent now paid thereon, $60, making a net gain of $100.

Up to this point, making no allowance for any profit on circulation or Government bonds now owned, the bank under consideration would have a net loss of $70 per year.

But many banks find in practice that, in addition to the 9 per cent of their deposits that must be kept with reserve agents, most of the time they keep an additional 9 per cent either with their reserve agents or other correspondents.

Under the proposed bill, with the assured right of discount by the reserve bank, the country bank might with safety and prudence keep practically down to its reserve required by the law, and lend out this extra 9 per cent of its deposits ($9,000) at say 8 per cent, making an annual income therefrom of $720.

Deduct from this the 2 per cent it now gets, $180, and it would make a net profit here of $540.

Deduct from this the $70 loss above and, on the presumption above, the bank would annually have a net profit of $470.

Senator NELSON. That is on the theory that you loan the 9 per cent out?

Mr. JONES. Oh, of course, I am presuming that; but they do not loan the 9 per cent. If you did not lend out all that 9 per cent—which, of course, you could not do—it would be very easy to figure from this what that reduction would be. But you will certainly lend out, I should say, half of that anyhow. So that instead of that $540, it will be half of that, or $270, and still leave a profit to the bank on that basis.

The example above is of a bank where the deposits are double the capital. If the proportion of deposits to capital were larger, the advantages under the new system would be greater.

And I have figured out, taking it the same way, that if you had $50,000 capital and $200,000 deposits the profit would be $1,090. If you had $50,000 capital and $500,000 deposits the profits on this presumption would be $3,950 per year.

The above presumptions are given merely for example. Each banker could change to suit his individual case.

The above only illustrates the reserve requirements.

But some one says the country bank has not the kind of paper that will be subject to discount at the reserve bank. The answer is that the country bank will change its requirements in taking paper to meet the reserve bank's requirements for discount. I do not think there is any doubt about that.

There are other important features to be considered, among them the collection of items at par; and also whether the country bank can transacts its business without keeping a certain amount of extra reserves with its city correspondent.

Then there is the question of whether the result of this new sytem will not be to reduce the rate of interest on all paper of the kind that will be subject to rediscount at the reserve bank.

In any event, the above suggestions make a concrete basis for figuring by the country banks.

That is, I have figured out my own view of that situation; and as I figure it, if I were a country banker I would come in.

Senator POMERENE. Now, as I understand your deductions—and I do not bear all your papers in mind—but generally speaking, the profit to the bank would increase under this system in proportion to the deposits they had—that is, the ratio of profit would be greater to a bank of a given capital than had 10 times as much deposits as it had capital would be if the deposits were only twice what the capital was?

Mr. JONES. According to the figures on that estimate I have just made, if the bank has deposits of four times its capital, it has close to an even break, without counting in its profits which it would get from lending this part of its reserve. If it has deposits of less than four times its capital, it would have a loss. If it had more than four times the amount of its capital in deposits it would make the gain that much greater.

Senator POMERENE. Yes, I understand.

Senator NELSON. But it seems to me that you are figuring that wrong. You are figuring 9 per cent reserve. Now, reserve in their own vaults, and 5 per cent in the reserve bank, and there is 2 per cent more which they can keep either with themselves or with the reserve bank. But in any event there is 12 per cent that is idle money, in some form.

Mr. JONES. Yes.

Senator NELSON. Well, where do you get that extra 9 per cent that you spoke of?

Mr. JONES. Well, in addition to the 9 per cent which they are required now to keep with their reserve agent, they keep 5 per cent in their own vaults and 9 per cent with their reserve agents; but, for practical purposes, they actually keep another 9 per cent with their reserve agents, because they have no place of assured discount, and they have got to run a great deal stronger than they would have to do if they could go and get discount from their reserve bank under this bill.

Senator NELSON. You are assuming, then, that they keep 9 per cent more reserve than is required?

Mr. JONES. I am assuming what I think is ordinary practice among the banks.

Senator NELSON. That is, you are assuming that they will keep 9 per cent more in their banks than they can utilize?

Mr. JONES. No; I am assuming that they keep that 9 per cent there now as an extra reserve, for business purposes and exchange purposes, and because they can not run so close. If they had an assured place of discount, where they could go and discount their paper, they could run closer to their reserve and would not keep so much and I am assuming that they would lend out this extra 9 per cent. I had used 8 per cent interest on it merely as an example.

Senator SHAFROTH. Mr. Jones, Mr. Forgan, of the First National Bank of Chicago, testified that they built up credit to the extent of eight to one on their capital. Now, if the amount which was required to be held as reserve was reduced to country banks 3 per cent and to the other banks 7 per cent, it releases that much capital upon which they can build credit, does it not?

Mr. JONES. Assuredly.

Senator SHAFROTH. And instead of increasing at the same rate that the ordinary amount which the bank would get in for the loan of that money, it would be an increase of six or eight times that amount in credit, would it not?

Mr. JONES. I do not think it has ever been a question with the banks as to how much credit was possible with its capital and surplus, but as to how much it can get. Here is a bank that has 10 times its capital in surplus and deposits. Here is another bank that has only double its capital in surplus and deposits.

Senator SHAFROTH (interposing). Is not the average about about eight to one?

Mr. JONES. I have not figured that out.

Senator SHAFROTH. But whatever it is, it would be that much more of an advantage to the country bank or the city bank to get into this regional reserve scheme, would it not?

Mr. JONES. I do not think that is a question of its credit. A bank with its present capital, whether it can build up a credit of five, six, or eight times its capital, does not depend upon having a little bit more money loose, I think.

Senator SHAFROTH. But every little helps, does it not?

Mr. JONES. Yes.

Senator SHAFROTH. And the use of 3 per cent in the country bank and 7 per cent in the city bank would give that much more of a capital to them, upon which they could build up a superstructure of credit, would it not?

Mr. JONES. I have just figured out that they will be that much better off.

Senator SHAFROTH. But that does not go to the extent of permitting them to build up this credit? You have counted it only once.

Mr. JONES. Yes.

Senator SHAFROTH. The amount of money that would be released to the bank; but if they built up eight times that amount in the shape of credit, would not they build up on this advantage to the extent of eight times the amount?

Mr. JONES. You would, if the banks built up to their limit; but I do not think any bank has done that.

Senator SHAFROTH. Yes.

Senator HOLLIS. In talking to those national bankers, to whom you spoke, did you find that their chief consideration was the earning of dividends for their stockholders?

Mr. JONES. Well, I do not know that I got that from talking to them; but I think that is what they are all in the business for.

Senator HOLLIS. That is correct. That is all.

Senator WEEKS. Mr. Jones, there is one other question. I want to ask you about the number of reserve banks. What have you to say about the desirability of the number provided in this bill or a lesser number or a larger number?

Mr. JONES. In looking over the cities of the country where I thought the business was such—the commerce—that it would require—the very nature of the case—a bank of this kind, I do not see how it could be less than 10, and 12 would possibly make the bill more popular. I believe, theoretically, that it would be better if you did not have quite so many. I think it would make the banks stronger, and you may take the chance in having 12 of having some

reserve bank that is weak unless it gets so attractive that the banks generally come into it. I think that is the danger of having the number definitely fixed at 12, but I think it certainly ought not to be any more; and if you would strengthen the system and make it right I think the tendency should be to have a less number than a larger number, because, as you have it now, those reserve banks could have branches in those other States, and the man would not be so far away from the facilities of the bank, because the bank in St. Louis would have a branch at Wichita, and that man would not be so far away from the facilities of the bank. I think the facilities he would have by letting them have branches will meet the needs of those men.

Senator WEEKS. What advantage would it be to have over five, for instance, except to satisfy the local pride of some cities that they have a reserve bank?

Mr. JONES. If you give a certain amount of money that is going into the bank and it goes into but five banks, of course they will be stronger than if it goes into 12; and the reserve banks ought to be large, because we have such large national and State banks and trust companies; and if it is to be a controlling factor, the dignity and power of the reserve bank ought to be as large as any of the other banks around it.

Senator WEEKS. Do you think five would have any advantage over one?

Mr. JONES. Oh, very much.

Senator WEEKS. What?

Mr. JONES. I should think it would be very unfortunate to have only one.

Senator WEEKS. Why?

Mr. JONES. In the first place it is much easier to get control and much easier to get it where it would be in wrong hands; and because they have only one in France, one in England, and one in Germany does not cover it, because you can put the territory of all those countries in one-half of the United States. I think our country is too big for that. To talk about San Francisco having to send to New York to deal with a bank would be absurd in my opinion. The nature of our country is such that you ought to distribute that power and the facilities furnished by the banks would come to the people, so that a man could get to the first heads very much better than if you put all in one bank.

Senator WEEKS. Of course, if you have 1, 5, or 10 you will have branches anyway?

Mr. JONES. Yes.

Senator WEEKS. So it would not be necessary at all for the people in San Francisco or any other place to go to any other source of supply than the branch located in that city?

Mr. JONES. The only difference in having a bank out there is you would have directors out there who understood his condition, and it would not be so well appreciated by the bankers down in New York, who did not understand his condition, and every man would rather deal with a principal than a substitute or a branch.

Senator WEEKS. Would you have separate directors for the local branch?

Mr. JONES. You might as well do that. You now have that; you have separate institutions. I think it would be more consistent with

the public sentiment in the United States that you decentralize this power.

Senator WEEKS. Don't you think if you have five banks it would be more decentralized than if you centralize the money power in one bank?

Mr. JONES. I think there ought to be 12 to bring the facilities closer to the people in the country.

Senator WEEKS. Then why not make it 20?

Mr. JONES. Well, it would be a reduction ad absurdum. You might, if you say 20, why not 20,000? You have got to take into consideration the amount of capital and the resources these banks have. You can not have too many, and it gives them a chance of monopolizing the influences and power by having 1 or only 2 or 3.

Senator WEEKS. Don't you think they could monopolize the gold supply of the country with 12 just as well as they could with 5?

Mr. JONES. I think the tendency would be they could monopolize the gold supply better with a smaller number, because you could get a continuity of action somewhat better. I think 5 could do it as effectively as 1, and I think 12, practically, with a proper cooperation between them, can accomplish it.

Senator WEEKS. Do you not think this power of rediscount is absolutely going to decentralize the whole system?

Mr. JONES. I think it is practically so, and it ought to be.

Senator WEEKS. We now have central banks where, as a matter of fact, they are under private control, and it is to that source that the banks of the country have to go. Now, if we provide for this rediscounting, are we not decentralizing the whole system, whether you have 5 banks or 12?

Mr. JONES. You have central banks now because of the law relating to the keeping of reserves.

Senator WEEKS. Absolutely.

Mr. JONES. That has been made possible, the centralizing of this power, by the laws requiring the keeping of reserves in national banks. Now, when you take that away I do not mean to say New York is not and will not continue to be the financial center of this country—and I think it will be the financial center of the world—but as we grow and develop we will always have to have a national center, and I am not in sympathy with the idea of breaking New York's neck. I do not think it is the sentiment of the country that that should be done, but I do believe, in the long run, the other interests of this country will be as well subserved if not better subserved if you remove the law that now tends to accentuate the power of one reserve center or two or three.

Senator WEEKS. There is one item I wanted to ask your opinion about, and that is a provision which was inserted in the bill I think in the last days of its consideration in the House, which permits the reserve banks to go into the market and buy and sell bills.

Mr. JONES. I think it is in the bill they can do that with domestic as well as foreign customers. I think the reserve banks ought not to be put in competition with the member banks. I think, possibly, the argument has been made that the reserve banks may at times go in and buy paper in the exchange market. I think the language of the bill should be changed, but I am inclined to believe there should be power to acquire foreign exchange. I think it is necessary to some

extent just as heretofore. I am not familiar enough with the foreign-exchange matters to make some suggestion, but there is some power that is necessary I think. But it ought to be limited in the bill as it now stands.

Senator WEEKS. Do you not think the foreign-exchange matter would be regulated by reason of the lowering of the foreign-discount rate?

Mr. JONES. In the main, yes.

Senator WEEKS. And that all the banks, acting in unison, that that would have the effect of checking the export of gold and bring about the importation of gold?

Mr. JONES. It may. I do not think I am sufficient of an expert to give an opinion that would be entitled to value as to whether that alone would do it. I would have no confidence in my own opinion on that subject.

Senator HITCHCOCK. The chairman of the Minnesota delegation has kindly consented to give way now, and I will ask to hear from you, Mr. Endy.

Senator POMERENE. I would like to ask just one or two questions of Mr. Jones, to get his opinion.

Senator HITCHCOCK. Yes, Senator.

Senator POMERENE. It has been suggested here at different times that the public should be permitted to become stockholders in these regional reserve banks. What is your judgment as to the propriety of such a course?

Mr. JONES. I think it would be a great mistake to permit that.

Senator POMERENE. For what reason?

Mr. JONES. Because under this system now we have developed 25,000 banks, and they are all in a position where they are responsible to the needs of their several communities, and I think the tendency of this legislation here to make reserve banks should be simply to legislate to facilitate the banks that already exist in meeting the demands of the public with right facilities, and I think it is necessary to have the banks as stockholders, because you need their deposits and the other things that come from them that an individual could not furnish so well.

Senator POMERENE. Some have suggested that probably a sufficient number of banks might not avail themselves of the privilege of this system in order to provide the necessary capital for these regional banks. In such a contingency as that, would it be wise or unwise to allow the public to subscribe?

Mr. JONES. No; it would be wiser to make the inducement greater so that the banks would come in.

Senator POMERENE. Just one other question: The reserves under this bill have been reduced to 12 per cent in country banks and 18 per cent for city banks. I have heard one opinion expressed to the effect that these reserves were too low, and another to the effect that they were too high, and it is evident it is somewhat problematical as to what the right amount should be. In your judgment, would it be wise to give to this board the power, with the approval of the President, to increase or to decrease the amount of these reserves in the event that future contingencies might suggest such a course?

Mr. JONES. I should think it better to leave that as a question to be acted on by Congress, which meets every year, rather than to any such pressure as that which might be brought to bear on the President or any board.

Senator SHAFROTH. Have not the banks remedied that by keeping in reserve now more money than the requirements of the law, and would there be any danger of the reserve being too low?

Mr. JONES. Of course, at 5 per cent in the reserve bank, it is in no sense a reserve against the deposits, because you can not use it. It is a misnomer to call it a reserve, because you put it out of reach, where you can not use it.

Senator NELSON. It is no reserve at all.

Mr. JONES. It is no reserve at all. But we have a system by which the banks are committed to reserves, and they are committed to them so much that they do not know how to get away from it. But it is unscientifically called a reserve, and then you can not use it in case you need it.

Senator NELSON. It is not responsive to the deposits of the bank, at all, and you can not use it in any event.

Senator SHAFROTH. But when the banks need money would they not use it?

Senator NELSON. It is not in any case, even in case of insolvency—it is not a reserve in any case.

Mr. JONES. There is where you want the rediscount paper. That is all; that remedies the whole business. That is the great feature in this bill, and I think will be a great thing for the business of this country.

Senator HITCHCOCK. Now, we will hear representatives of the National Credit Men's Association. Mr. Endy, whom will you introduce?

Mr. ENDY. I wish to thank Mr. Winston for his courtesy in allowing us to be heard, and I will ask Mr. Tregoe to read a brief of our statement, and if any questions are to be asked we will be pleased to answer them.

Senator HITCHCOCK. Please state, for the reporter, your name and place of residence and official connection with the association.

STATEMENT OF J. H. TREGOE, OF NEW YORK, N. Y., SECRETARY OF THE NATIONAL ASSOCIATION OF CREDIT MEN.

Mr. TREGOE. My name is J. H. Tregoe, secretary of the National Association of Credit Men.

Senator HITCHCOCK. Proceed.

Mr. TREGOE. Mr. Chairman and gentlemen, I would like to say that we have presented our arguments in the form of a brief and, speaking for the committee and the association, I believe if you should care to have us return at some later date and question us concerning these points we advance, I am sure we should be glad to do it. After the 5th of October, it would be convenient to do that.

I desire to state first that the association is devoted strictly to the consideration of credit. That is the viewpoint we have had in mind in considering this act. We could not consider the machinery of the banks nor any machinery, but simply as the act, in the judg-

ment of the committee, would affect the credit of the country. We never depart as an association from that fundamental idea. The committee to whom was intrusted the work of considering the act in behalf of our association and, as some of you may know, represents the largest commercial organization in this country and perhaps in the world, embracing a large number of our banking and commercial houses.

In considering this act the committee was perfectly free from prejudice, perfectly free from any business selfishness, because we represent a large body of people, and we wanted to look at it in a perfectly patriotic way, and the arguments that we present represent that spirit.

Our commercial history shows that the waste attending financial crises falls heaviest upon business, and business men are therefore directly interested in the adoption of a banking and currency system that will meet the needs of a growing commerce and save them from the occasional heavy waste and the constant menace of an ineffectual system.

The banking and currency committee of the National Association of Credit Men have closely examined the proposed Federal reserve act to ascertain its powers as a regulative measure to provide for the Nation's banking and currency requirements and to save business from the depression and waste of financial crises.

The committee is convinced that the spirit of the proposed act is constructive. It believes, however, that the framers of the bill could not foresee all the situations that such a measure is designed to meet, and therefore Congress should receive in a friendly spirit the criticism which is directed by bankers and merchants against some of its provisions which, if not changed, may impair its efficiency as a governmental instrument of regulation. Such criticism should not be regarded as prejudice, but as coming in a spirit of helpfulness from those whose experience qualifies them to forecast the effect of the proposed law upon the business of the country.

The committee offers the objections hereafter set forth in the friendliest spirit. It is believed that the changes suggested are essential to win the confidence of the people and make the measure a safe and effective means of accomplishing the purpose for which it is intended. Other changes suggested by careful study of the measure, but which seem to be of minor importance now, can safely be left for consideration until after the bill has been enacted into law and its practical application has demonstrated the need and value of such changes.

The committee suggests and urges the following changes:

First, as to the number of Federal reserve banks. The minimum number of Federal reserve districts and Federal reserve banks required by the proposed act, namely, 12, should be materially reduced. The needs to be met and the benefits to be derived from an adequate reserve system are best assured through banking associations of large capital and resources. A smaller number of Federal reserve banks would be more efficient in consolidating and mobilizing reserves and protecting and conserving the Nation's supply of gold than the minimum number mentioned in the bill, and would concentrate and economize the supervisory work of the board of control. The needs of different sections of the country can be met by branches

of Federal reserve banks just as effectually as that service may be performed by the parent banks.

Secondly, as to their control and management the Federal reserve board is to possess very great powers and is to perform a public function of far-reaching importance. Therefore its members should be above suspicion of inefficiency, prejudice, and political control. They should possess high qualifications, based on a profound knowledge of and a wide experience in the theory and practice of finance. We can see no menace in having the Federal reserve banks represented upon this board, but if the Federal reserve banks are denied representation upon the Federal reserve board then the powers of the advisory board should be increased. This board should be allowed to select its officers and two of such officers receive salaries, maintain an office where the office of the Federal reserve board is located, and attend the meetings of the Federal reserve board, but without a vote. The influence of these two members of the advisory board, supported by public sentiment, will be more effective than were they granted voting powers.

Third, as to Federal reserve notes. These notes should not be the obligation of nor should they be guaranteed by the Government, as there is no provision in the bill for the Treasury to acquire and maintain the gold reserve necessary for their redemption. They should be the direct obligation of the bank that issues them and redeemed by that bank in gold on demand. To make the Government guarantee the Federal reserve notes and compel the Treasury to redeem them on demand presupposes:

First, that the Government is to be a beneficiary in some way or receive a valuable consideration through the issue of said notes; and second, that the Treasury will have the means to acquire the gold required for redemption purposes.

As the Government will not receive a valuable consideration through the issue of these notes and all Government moneys will be deposited in the Federal reserve banks, under the provisions of this measure, leaving the Treasury powerless to acquire gold except by issuing bonds, it will be dangerous to the credit of the Government to impose upon it this redemption requirement.

As a direct and first lien upon the assets of the issuing bank and secured by prime commercial paper acceptances and other high-grade securities, acceptable for rediscount under the provisions of the proposed act, and a gold reserve of 33⅓ per cent, there need not be any doubt that such notes without any other security will circulate freely at par and perform their functions properly and adequately. The reserve of not less than 33⅓ per cent and not more than 40 per cent held by the issuing banks for the redemption of these notes should consist of gold exclusively. The words "lawful money" as applied to reserves for the redemption of notes should be stricken from the bill.

Fourth, as to interest on deposits. From an economic standpoint the Federal reserve banks should not pay interest on deposits therein, but if interest is to be paid on Government moneys the same rate should be paid to banks as an inducement to them to deposit that part of their reserve which the measure leaves optional with them to keep in their own vaults or on deposit with a Federal reserve bank. There should be no preferred depositors in Federal reserve banks.

Fifth, savings departments in national banks. That provision should be stricken out entirely. It is dangerous. A careful reading of that provision of the bill impels one to the belief that unless the Federal reserve board exercise very close scrutiny and establish very strict regulations very nearly all the functions performed by the commercial department of a bank could be exercised by the savings department upon a very small and inadequate reserve, thereby defeating the reserve requirements of the bill as applied to national banks and jeopardizing the security of the depositors.

We urge the limitations and changes suggested in these five objections as directly concerning essential parts of the proposed act, and without which its powers to do the work for which it is directly intended may be seriously questioned. The committee urges upon legislators, business and banking men in considering banking and currency legislation, that is in its judgment the greatest of our present national questions, a spirit of deep patriotism, so that the general and not special interests may be served.

As this brief states, we are friendly to the act, and with those changes which we consider essential we believe it is safe to try it. That covers our brief, Mr. Chairman.

Senator WEEKS. How many organizations are there in the Credit Men's Association?

Mr. TREGOE. We have in the National Association of Credit Men 92 local associations, making a total membership of banks and houses at the present time of about 17,200.

Senator WEEKS. Have you any idea how much capital is involved in those 17,200?

Mr. TREGOE. Senator, I never did take the time to calculate—to gather statistics—but it would be perfectly remarkable if we did take an account of the capitalization really represented in the membership of our association.

Senator WEEKS. Suppose the changes which you have suggested in your report were not made. Do you think it would be better to pass the bill as it now stands or to fail to pass the legislation?

Mr. TREGOE. Speaking now for the committee, if you will please, Senator, the committee suggests these changes as essential, and I think the word "essential" speaks for itself. They could not favor the bill as it stands in its present reading.

Senator NELSON. Without those changes?

Mr. TREGOE. Without those changes. They consider that makes it a workable act.

Senator WEEKS. You suggested a smaller number of reserve banks.

Mr. TREGOE. Yes.

Senator WEEKS. How many?

Mr. TREGOE. That is a right tender question, Senator. We did not take a census of our committee. Personally, speaking for myself, I should like the test to begin with three. That is my own conviction. It is just the same number as we have of central reserve cities to-day, three.

Senator POMERENE. What is the magic in the number three?

Mr. TREGOE. There is no magic at all, Senator; only if you will permit me to say (I would not like to speak for the committee in this), my own reading would lead me to differ somewhat from the speaker who preceded me. I believe from the standpoint of a po-

litical economy perhaps the one organization with branches in this country is theoretically right, you understand. That is the economical point of it. That is the conviction my own study leads me to discover; but in testing out this Federal reserve bank, personally I have toward it the friendliest attitude. And whether it is 3, 5, 6 or 7, whatever it may be, we believe that the number 12 should be materially reduced, leaving that reduction to the judgment of Congress after they have listened to the arguments and realized just exactly what is involved by having too large a number of Federal reserve banks.

Senator WEEKS. That is your personal opinion you are expressing now?

Mr. TREGOE. That is my personal opinion.

Senator WEEKS. Did the committee come to any conclusion as to the number of banks they thought should be adopted?

Mr. TREGOE. How is that? I beg your pardon?

Senator WEEKS. Did the committee come to any conclusion as to the number of banks?

Mr. TREGORE. I believe the wishes of the committee would be fully met if the number were reduced to 6—5 or 6—as the minimum for starting, you understand; not as the maximum, but the act says 12 as a minimum, and with $5,000,000 minimum capital for each bank; and the committee can understand, with about a billion banking capital now in the national banks, how difficult it might be to begin the operation of the act on a minimum of 12 with a minimum required capital of $5,000,000.

Senator HITCHCOCK. Senator Pomerene, have you any questions?

Senator POMERENE. You have just stated now your committee would be satisfied with 6?

Mr. TREGOE. I think so.

Senator POMERENE. The bill just passed by the House provides for 12. As between the two numbers, you do not think that there is a very essential difference, do you?

Mr. TREGOE. Between 6 and 12?

Senator POMERENE. Yes.

Mr. TREGOE. I should say yes; a most essential difference, Senator, between 6 and 12, in operating. You understand those Federal reserve banks should be banks of large resources and large capital in order to do their work, in order to perform their functions properly in this country. They would have to be banks of large resources, large capital, and the smaller the number at the beginning, at the testing of the plan—it is far better to have 6 than 12.

Senator POMERENE. Your ideal plan is one central bank?

Mr. TREGOE. My theoretical plan.

Senator POMERENE. How do you distinguish between the theoretical plan and the practical plan, now?

Mr. TREGOE. I would hesitate to call most any banking institution ideal in that sense. I am speaking now of the theory of economy, and I am speaking of the conclusions I reached in my study of the science of money.

Senator POMERENE. Would you, if it were within your power—would you provide one central bank here for the country?

Mr. TREGOE. No; not under this plan. Not under this plan, because you have a board of control in there which presupposes that there are at least two or three to control.

Senator POMERENE. What would you have in it?

Mr. TREGOE. Why, personally, you understand, Senator, you ask me the question.

Senator POMERENE. Certainly.

Mr. TREGOE. I would have the one bank approximating somewhat that suggested by the Monetary Commission. Not entirely that.

Senator POMERENE. With that general plan of control of the banks?

Mr. TREGOE. With that general plan of control of the banks—that general idea. That is theoretical, you understand. But do not lose sight of the fact that we are friendly to this—friendly to this act with the changes.

Senator POMERENE. Another matter: You have stated here the number of business houses that were connected with your association.

Mr. TREGOE. Yes.

Senator POMERENE. To what extent have you consulted or has your committee consulted these different members in presenting your conclusions here to this committee?

Mr. TREGOE. Last June, in the city of Cincinnati, was held our convention with about 1,200 representatives present, and the report of the committee presented them, which of course did not embrace these conclusions, which were reached since, was most enthusiastically received, and the message was sent expressing really the friendly attitude of the association toward the proposed legislation. I should say that the association would stand back of the conclusions reached by the committee, and which they have presented in this argument.

Senator POMERENE. That is, you say that without having consulted them at all?

Mr. TREGOE. No. I have not the written approval of the 17,000 members; no.

Senator POMERENE. And you do not know whether they would favor 1 or 5 or 6 or 12 banks?

Mr. TREGOE. Not the 17,000; no. Like all organizations, Senator, of that kind, they have delegated to this committee this specific department of its work.

Senator POMERENE. I am not making any criticism of what you have done.

Mr. TREGOE. Yes.

Senator POMERENE. But I am trying to ascertain whether or not the views represented here are in fact the views of the 17,000 houses that are connected with your association, or do they represent simply the consensus of opinion of your committee?

Mr. TREGOE. The committee would not act without having in mind some views expressed in convention, or some views that they have gathered. But if you will permit me to say, upon my own authority and as I know the membership very well, I believe that the large majority (I would not say all, but a large majority) of these houses, of the members of the organization, segregating the business houses, would favor a smaller number than 12.

Senator POMERENE. I think I understand your position about that. Another matter: Why did you assume that if this board is named

by the President and confirmed by the Senate, that it will be composed in whole or in part of impractical, inefficient men?

Mr. TREGOE. We do not assume that.

Senator POMERENE. You express a fear and lack of confidence that that will be done.

Mr. TREGOE. No. We wanted the measure in such a way, Senator, that it will be beyond the shadow of a doubt.

Senator POMERENE. Do you doubt the good faith or ability of the President to name men who are leaders in the business world in a subject of this kind?

Mr. TREGOE. No. Answering that personally, I should say not, and I wish I had in other things as big a spirit as I have absolute patriotism both to the Government and the people who control it.

Senator POMERENE. I am very glad to hear you say that, and for that reason I do not understand the force of the criticism I have indicated.

Mr. TREGOE. I should not take the language to be a criticism. It simply says the members should be above suspicion.

Senator POMERENE. We all agree to that.

Mr. TREGOE. You anticipate certain situations by providing for them. There are many laws enacted to cover situations which you hope will never come to pass and which you would dislike dreadfully to have come to pass, but still you enact laws to meet those situations.

Senator POMERENE. Most surely, but it seems to me you start out on a wrong hypothesis—and when I say "you" I mean men who entertain the same view that you do. You assume that if there are bankers on this committee they will always do the right thing. You assume that if the President appoints them they will probably do the wrong thing. It seems to me that we ought to have faith enough in our Presidents to believe they would appoint the right kind of men on this board, just as we have faith they will appoint the right kind of men upon the Supreme Bench and upon the Interstate Commerce Commission.

Mr. TREGOE. Senator, won't you allow me to ask that you do not hold that opinion? We do not. And we do not believe either that if a banker were put on that Federal reserve board he would be above suspicion. Not at all. We simply want the measure framed in such a way that if the Federal reserve banks are not granted representation the powers of the advisory board shall be increased.

Now, the argument is made that there is no commission, no supervisory commission, that has representation upon it of the interest that it supervises. But I think that on a close analysis you will discover that the board of control provided by this act is really more than a supervisory body; it is a controlling body. It controls. Its powers are very large. You recognize, too, just at this time the divergence of views, and it was for that reason that our committee held these objections for some little time, but they withheld them from publicity in order that you gentlemen might get them first. They have never been announced in a newspaper or officially to our organization. We brought them to you first.

Senator POMERENE. I agree with you that these powers that are invested in this board of control, or reserve board, are very large, but they are no larger under the provisions of this bill than they would be if the board were composed wholly of bankers.

Mr. TREGOE. I will concede that there are two very strong arguments for the Federal reserve board as it is constituted and provided for in that act. You will notice, then, we do not say in our brief that you must have, or ought to have, representation upon it, but if they do not have representatives the powers of the advisory board should be increased to the extent of having two of its members sit without vote in its sessions.

Senator POMERENE. That is all I desire to ask the witness.

Senator HITCHCOCK. Senator Shafroth, have you some questions?

Senator SHAFROTH. Mr. Tregoe, would it not, in your judgment, add to the stability of the currency to have it a note of the Government, or guaranteed by the Government?

Mr. TREGOE. No; not this kind of currency. These Federal reserve notes do not require that the Government shall participate as an obligor or guarantor.

Mr. TREGOE. Yes. There is no reason why the Government should

Senator SHAFROTH. It could do no harm, could it?

participate in that. The history of other banking systems demonstrates that under the provisions of the act, with the security that is really held against those notes, they will circulate at par and be retired quickly, as notes of that description should be retired. We see nothing but a menace to the Government and the Treasury in providing that those notes should be guaranteed or be an obligation of the Government, and could be presented at the Treasury.

Senator SHAFROTH. You do not think it would add to their circulating ability?

Mr. TREGOE. Why, of course, in the minds of some people it would make them very much stronger. You know, we are a large Nation, and there are lots of people in this Nation who do not understand really the science of money—that money is a commodity, like any other commodity; it ebbs and flows like other commodities—and the Government's guaranty has in their eyes a superior value, and rightly so.

But these notes are for a specific purpose. They are to provide for certain situations in order that we may perform our credit functions properly. Credit must be redemptive. It is all right to speak of credit, but credit must have redemptive capacity. We are doing business in credit about 10 to 1 in comparison with the money we have in this country—even more than that. The bank credit is about that. Credit must be redemptive. There must be something there to redeem it. But there is a possibility of stretching out the credit until it becomes unsafe. That is when the crises come, when the contraction of credit comes, and the business man suffers.

Senator SHAFROTH. Do you think this currency that is to be issued by the Government would be improved by making the notes full legal-tender money?

Mr. TREGOE. Oh, no. We declare against making them legal tender.

Senator SHAFROTH. Why?

Mr. TREGOE. No obligation of that kind should be a legal tender.

Senator SHAFROTH. Would it not make an increased demand for the notes if they could discharge debts to the extent of $60,000,000 or $80,000,000?

Mr. TREGOE. Oh, it would be contrary, Senator, not only to theory, but, I believe, to practice, to make a note of that kind legal tender.

Senator SHAFROTH. We have had no inconvenience in making the $346,000,000 of United States notes legal tender, have we?

Mr. TREGOE. We did in 1896, didn't we?

Senator SHAFROTH. No; no more so than if it had been legal tender.

Mr. TREGOE. That is just a point on which we would differ—in a very kindly spirit, however.

Senator SHAFROTH. Yes; but it was the redemptive power, which, of course, has to be added to every legal-tender note.

Mr. TREGOE. History shows that one of the most dangerous things for a government to do is to issue paper money and declare it legal tender.

Senator SHAFROTH. The Government of France does it as to the note issue of the Bank of France, does it not? The notes of the Bank of England are made legal tender. The notes of the Reichsbank of Germany are made legal tender, and the Governments have nothing to do with those banks except that they act as depositories for the Governments. There is not nearly as close a relation between the Governments and those banks as there is between our Government and the banks created under this bill.

Mr. TREGOE. That would open up quite an argument.

Senator SHAFROTH. Let me ask you another thing. You say that these regional reserve banks should redeem this money, and that it should be made upon its face redeemable in gold, and not in lawful money.

Mr. TREGOE. Bear in mind—do not confuse the arguments at all—we ask that the reserve be in gold; that the notes may be demanded in gold. But those notes would circulate, you understand, Senator, and be cleared just as items are cleared to-day, and be redeemed in transit in what would be called lawful money and gold.

Senator SHAFROTH. Yes; but the party would have a right to demand payment in gold.

Mr. TREGOE. He would have a right to demand payment in gold.

Senator SHAFROTH. Now, as a matter of fact, don't you think by making these notes redeemable in gold or lawful money, at the option of the bank, that would have a tendency to preserve the gold reserve of the Nation instead of destroying it?

Mr. TREGOE. No; I should say just the contrary, because if those notes are paid in gold on demand, that necessitates that the Federal reserve banks shall provide sufficient gold.

Senator SHAFROTH. Then don't you have a competition immediately started between the National Government for gold for the redemption of its obligations, and the reserve banks for gold for the redemption of their obligations? Why is it not better really to make these all redeemable by the National Government? Don't you think fewer of them would be presented for redemption?

Now, these regional notes, as you may call them, are going to circulate in the district in which they are issued. In other words, whenever a regional reserve note gets out of that district it is required that the National Government, as soon as it comes into its Treasury, shall transmit that note to the particular district and have it take care of

that note. In other words, the tendency is to keep these reserve notes in the districts where they are supposed to be issued.

If that is the case, you can readily see that the demand for gold would require 12 gold reserves kept in the United States. And, inasmuch as those reserves in some instances, it might be considered by some of the directors, should be very high, you would have 12 competing people trying to get as much gold as they can, and the blanket would not be broad enough to go around.

But if you make it redeemable in lawful money, then you come to the National Government and say, "Redeem this in gold"; and the result would be they could redeem it, and it would take far less gold to do the same thing. And does not making the bank reserve redeem these in gold weaken the chances of maintaining the gold reserve instead of increasing them?

Mr. TREGOE. Senator, let me say to you on that point, that we do not want any more of these Federal reserve notes issued than are absolutely necessary. That is the science of money. Money is a commodity, and we do want any more of it than is necessary.

Senator SHAFROTH. Then you regard it solely as a temporary currency?

Mr. TREGOE. We want the elasticity. We want an elastic currency. We want the notes to come out when they are needed. Any provision that would keep those notes in circulation beyond the time they are needed is simply inflating the currency, and, as a consequence, advancing prices, because the inflation of the currency has its effect on prices.

Senator SHAFROTH. Of course, there are many things that enter into the question of prices, and currency is one of them, but it is not the sole thing. The question of trusts, the question of combinations, the question—as it was explained here by a gentleman the other day—that as to farm commodities it is due to the fact that the increase of population in cities has been to the extent of 22 per cent, whereas in the country it has been 2 per cent—a relatively high increase of the consumer and a relative decrease of the producer—and that increased demand upon the same production would naturally produce a higher price.

But those are questions we can not go into now. I just suggest them to you because it is not only money that determines the question of prices. These prices are world prices. The amount of currency that each nation presents and throws into the commerce of the world has an effect—a very small effect compared to the demand of the entire world—upon these world commodities.

Now, I want to call your attention to this: This demand which is made by people for this money in the localities where the bank issues the money, if it is met in gold, will produce a constant demand by the people and the holders of the notes in each one, upon the treasurer of the reserve bank. And it seems to me that you are starting a competition in the struggle for gold right in our own country.

Mr. TREGOE. I could not agree with you on that, Senator. One of the prime necessities is to keep our currency elastic, to give us the notes when we need them for legitimate and sound business purposes, and retire them when they are not needed; and any feature

that would keep those notes in circulation beyond the time they are needed is simply inflating the currency.

Senator SHAFROTH. Then you are in favor of the national-bank notes being retired in accordance with the provisions of this act?

Mr. TREGOE. Well, you know that bond-secured currency has come to that now. We have suffered very much because of the fact that the bank notes have not been elastic. They have not come out when we have needed them, and the supplying and retirement of them has been determined more by the price of bonds than by the absolute needs of business.

Senator SHAFROTH. And you prefer that the bank notes be retained rather than this currency should take its place?

Mr. TREGOE. That is a technical point I would not care to go into.

Senator SHAFROTH. Don't you think these national-bank notes should be retired; that they ought to be retired by a permanent currency, such as the United States notes?

Mr. TREGOE. We want an elastic currency, Senator—only enough money to do the business.

Senator SHAFROTH. But there is a certain amount which can be considered as permanent currency, and that is not necessary to fluctuate. If you add to that permanent currency this note issue provided in this bill, which will take effect only as to the elastic part of the currency, would not that offer a pretty ideal currency?

Mr. TREGOE. I would not care to concede that.

Senator HITCHCOCK. We want to hear the Minnesota delegation.

Mr. TREGOE. Mr. Chairman, here are some copies of this brief.

The CHAIRMAN. You may hand them to the stenographer.

Senator BRISTOW. I want to ask Mr. Jones one question.

Senator NELSON. He will be here later.

Mr. JONES. I will wait until these gentlemen have finished.

FURTHER STATEMENT OF MR. BRECKINRIDGE JONES.

Senator BRISTOW. It will take only 5 or 10 minutes. The question was raised as to the advisability of groups of banks getting their currency from the Treasury direct—that is, from the Government direct—in the same manner as the regional banks get it. Your objection was that it was putting the Government into the banking business and making it collect these notes. I want to read the section of the bill to which I referred:

> Any Federal reserve bank may, upon vote of its directors, make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may deem best. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application.

That is, the regional bank must deposit with the agent of the Government collateral in an amount equal to the sum of the notes that it applies for.

> The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of section 14 of this act.

That is, this 90-day paper. The reserve bank when it obtains currency must deposit with the agent of the Government this paper

that note. In other words, the tendency is to keep these reserve notes in the districts where they are supposed to be issued.

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which it has rediscounted from the member banks, a sum equal to the amount of the currency which it calls for.

And the Federal reserve agent shall each day notify the Federal reserve board of issues and withdrawals of notes to and by the Federal reserve bank to which he is accredited. The said Federal reserve board shall be authorized at any time to call upon a Federal reserve bank for additional security to protect the Rederal reserve notes issued to it.

Now, the objection which you made with some earnestness against the groups of banks applying directly to the Government in the same way that the reserve bank applies was that it would put the Government in the banking business and compel it to collect the notes, etc. Now, that was not anticipated any more for the group of banks or for the individual bank than it is for the Federal reserve banks, and I can not see any difference between the two systems so far as the principle goes.

Mr. Jones. Of course, I am not an expert on all these things, and many of my answers to these questions must be immature. But I can see at once that if your group of banks asked for these notes and got them directly, in the first place you would not have the same security behind the note because the Federal reserve bank, say at St. Louis—that note is a first lien on all its assets. You have the money that has been put up by the banks for their stocks; you have their double liability on that; you have all the assets, and you have this Federal reserve bank securing that currency. I believe that if you had simply let my institution go to the subtreasury there and put up security those notes would not be as well secured as notes would be under this reserve bank system.

In the case of these groups of banks—I do not know what the organization may be for them to pass upon a security, but you have a Federal reserve board there to pass on them. I would much prefer to let my paper that I wanted to rediscount go before a board than to go before a subtreasurer or the examiner for that district.

Senator Bristow. Of course, the matter has been discussed a good deal, and while I should like very much to go into it further, having urged that I be permitted to ask this question, and that the Minnesota delegation wait, I won't take that up with you. However, I make this suggestion for your consideration: While you have the assets of the regional bank—its stock and the collateral it puts up with the Government—behind the notes it issues, provision can easily be made that all the assets of the group of banks, in addition to the collateral and the gold reserve, can be behind the currency which it issues to the banks. In that instance you would have the entire assets of the group of banks, while in the case of the Federal reserve bank you would have only its assets—its 10 per cent of the stock of the member banks, plus the 10 per cent which it may call, and all the assets of the member bank to which the currency is issued.

Mr. Jones. This just occurs to me, Senator. Under the system you suggest you have only covered the single question of rediscounts. These reserve banks are going to buy bullion; they are going to do various things that tend to equalize exchange the world over. Under your system you would have nobody to take care of those general matters which have to be done by a private bank.

Senator Bristow. I would let that be done just as it is now.

Mr. Jones. Just as it is now?

Senator NELSON. It is not done at all now.

Mr. JONES. That is one of the great disadvantages.

Senator BRISTOW. Why, they have their deposits and the reserves. This is simply a provision whereby a group of banks, when they need additional currency because of conditions, can go to the Government and get it. Now when a national bank wants to take out currency it buys bonds and presents the bonds, and the currency is issued to it under the forms of law. It has certain rights that it now exercises in that way, and that grows as the business develops. As the Nation has grown the banks have increased.

Mr. JONES. But when you need currency now you can not go and get it, because you have not the bonds.

Senator BRISTOW. That is true, but here is an addition to the provisions that are now made, simply to remedy that defect which is complained of.

Mr. JONES. I could hardly be expected just off the bat to give you an answer, but I should like to have the privilege of answering it later and sending my answer to you, which I would be glad to have you consider.

Senator POMERENE. To be incorporated in the record.

STATEMENT OF A. H. COMSTOCK, OF MARSHALL-WELLS HARDWARE CO., DULUTH, MINN.

Senator HITCHCOCK. Kindly state your name, residence, and business.

Mr. COMSTOCK. My name is Albert H. Comstock, and my residence Duluth, Minn. I am in the hardware business, as vice president of the Marshall-Wells Hardware Co. of that city.

Senator HITCHCOCK. Proceed with your statement, Mr. Comstock.

Mr. COMSTOCK. Mr. Chairman, I have not prepared any statement of my views, but I will give them to you briefly.

I commenced with my business experience in 1864, at a time when we had the old State banks, and the deplorable condition of things at that time made a great impression on my memory, and the advent of the new measure, the national-bank act, which was so far superior and gave relief to the country has remained with me ever since.

Under the old State bank laws the proportion of the currency which was paid out on discount was so large that it created great loss and was a continual annoyance. The bills of the eastern State banks were good mostly, and the bills of the western State banks were a great many of them poor and worthless, and all of them at a discount, by reason of their geographical location under those conditions which were different from what we have now. So that they used to say in those times that when anybody got any money that they paid it out to liquidate their debts, which was not a bad idea, but the principal reason was that they did not want to carry it over night. That was about the general situation with respect to money during those times.

I entered my business existence as a young man at the beginning of the national-bank act, and I have seen it in use for so many years, and I am satisfied that my liking for it has increased constantly. I have been through all the bad times that we have had during our lives and I have seen the advantage of that system. However, I do

not think that all the banks should be national banks by any means, although the national banks may perform a great service. They did at that time perform a great service to the country's finance in the selling of bonds and all those things that we greatly needed and appreciated.

Then we came up to 1874, and we had a great deal of trouble. We tided over that and then the resumption of specie payments arrived and the banks all helped. Then the troubles of 1883 and 1887 and of 1893 to 1896, and on up to our last trouble in 1907. I have observed in all those times that the money was all right, and that the Government issues were good; the bank issues were just as good and everybody was pleased with it. But when it came to the time of trouble we lacked something, and we lack it to-day just in the same way, and we are likely to continue to do so until something else is provided.

In my opinion, what we lack is elasticity in the present currency. I do not think that we need more currency. There is nothing to show that. Our circulation, per capita, seems to be ample, and I think it is equal to that of any country, and with our modern system of credit we use less currency almost every day, notwithstanding the increase of population and the increase of wealth of the country. The increase in the quantity of gold that is produced and also of silver tends to show that there is money enough to do the business of the country because credit is so largely used, but it is at the time when we get into trouble that we need something else.

I have read this bill some, and I should say that what we lack is the asset currency, which would be temporary, that is named there in that bill. But I do not think that the reason why the business men of the country, as far as I know, are afraid of it, because the banks do not take kindly to it. I do not think that the national banks should be forced into it; or, perhaps, I might say by reason of its conditions that they might be forced out of it. That would be the difference.

I think that the connection of the banks with the national reserve bank should be voluntary on the part of the banks, and that all of the national banks, the State banks, and the trust companies should be members of this, if they choose, but that membership should be voluntary on their part. In other words, I should say that the conditions of the reserve banks should be made so attractive to the managers of banks that they would voluntarily want to be members of that reserve bank. I speak of "a reserve bank," but I do not think it would be necessary to have a large number of them. My idea would be that one reserve bank would be all that was necessary, with such branches as they thought best to establish.

We are considerable borrowers of money, with our large business, and it makes it necessary——

Senator NELSON. Yours is one of the largest wholesale hardware concerns in the country?

Mr. COMSTOCK. We are credited with being one of the largest in the West.

Senator NELSON. Next to the St. Louis house?

Mr. COMSTOCK. Our headquarters are in Duluth, and we have branches in Portland, Oreg., in Spokane, Wash., in Winnipeg, Manitoba, and in Edmonton, Alberta—widely separated.

Senator NELSON. Nine hundred miles from Winnipeg?

Mr. COMSTOCK. Nine hundred miles; yes.

So that the northwestern country, which is equal in territory to all of Europe, is covered by men from our house. Of course, that takes considerable money, and as we look at it, we are interested in the banks as borrowers, and when the banks are alarmed, of course, we feel that way. We do not want to see anything radical done. It takes plenty of time to do it right. You gentlemen have considered it a long time, but I just want to give my view of what would be best.

Senator NELSON. You looked into the details of the bill, Mr. Comstock?

Mr. COMSTOCK. I have read them. I could not say that I would be qualified as an expert on those things.

Senator NELSON. Have you any suggestions to make on them?

Mr. COMSTOCK. I would be glad to answer your questions as to anything I know.

Senator NELSON. Have you any suggestions about the provisions of the bill?

Mr. COMSTOCK. Oh, no; I think that the one reserve bank and the voluntary joining of the banks with that is of chief importance. I will speak on that subject. I think that if you make the central reserve bank attractive to the banks on business principles that they would be glad to join it.

Senator NELSON. What is your idea about issuing currency on commercial paper?

Mr. COMSTOCK. Only as a temporary measure.

Senator NELSON. With a gold reserve of 33⅓ per cent?

Mr. COMSTOCK. Yes. The idea would be that the banks would deposit—they would have a smaller interest in it than this bill requires: they would be invited to deposit their reserves with this bank, at a low rate of interest, a rate of interest which is as much less than banks pay as would make it their choice.

Then, I think that the desire for banks to rediscount their paper is largely overestimated in some respects. I think that there are classes of banks—country banks—which would be very glad to do so, and some other banks, but I would not expect that the large city banks would use this measure of relief in ordinary times. It would be an unusual time when the large city banks would avail themselves of it, and those are the only times in my business life of 50 years that I have ever seen the necessity for having an emergency currency.

Senator NELSON. Your idea then is, that if a system was provided so that commercial assets, commercial paper, could be available for currency, in emergencies, that our present system, supplemented in that way, would be ample?

Mr. COMSTOCK. Yes, sir.

I would say that a reserve bank could be built up which would be a great benefit to all the banks, and through them to all the business men. I think every business man would appreciate such a safeguard. That is what we lack. It is not present facilities, but it is the something that helps when we are in trouble.

You take these banks, and they would all—theoretically; I don't know that I could speak for all the banks, as they might have different views—but I am telling you the way it looks to us. The banks would all receive a small interest on their reserve kept in

that reserve bank. The business of the bank would be only with banks or with the Government; they would have no other customers whatever, except the Government. The Government would keep its deposits there, and the banks would keep theirs by reason of its being desirable to keep it there.

Senator HITCHCOCK. You are not talking about the pending bill?

Mr. COMSTOCK. I am talking about the one I would have.

Senator HITCHCOCK. Your ideal bill?

Mr. COMSTOCK. The condition is that you have antagonized the banks by conditions of this bill apparently, as I understand it, and I would have one that I should think would attract them.

Now, then, excuse me for saying this just as I think it. I have not prepared any paper on the subject, but that is my idea.

The central reserve bank, from the bank's standpoint, would have these deposits at a less rate of interest than regular banks are paying. The object would be that the connection of the bank with the central reserve bank would be of great value to them in case something happened.

Now, what to do with that money, which would be considerable—I think it would be very large. Of course, it would take, in a measure, away from the present existing banks, the deposits of reserves, but would centralize them in another way in another place. As to the use of that money, this reserve bank would rediscount the paper just as this bill proposes, for banks which wanted it, on the deposit of paper securities, and protect the securities against collateral—grain collateral, and other things, that would make it absolutely and perfectly good. They would discount the paper at a reasonable rate of discount. I have in mind 5 per cent, or something like that, which would be attractive but would be good.

The other banks that I spoke of that probably would not want to rediscount their paper in that way might take advantage of it temporarily by depositing bonds, for instance, and getting these accommodations up to a certain amount, in proportion to capital, deposits, business, and credit. That would be about my idea of a central bank.

Senator HITCHCOCK. Is that your statement in chief?

Mr. COMSTOCK. Yes, sir.

Senator HITCHCOCK. Senator Nelson, have you finished?

Senator NELSON. Yes.

Senator HOLLIS. You have heard it stated here today that the chief consideration of the bankers is to make dividends for their stockholders?

Mr. COMSTOCK. Yes, sir.

Senator HOLLIS. You understand that is so?

Mr. COMSTOCK. Yes, sir.

Senator HOLLIS. Your chief interest is to avoid panics and tight money, and to be able to get money at a reasonable rate when you need it?

Mr. COMSTOCK. Yes.

Senator HOLLIS. Can you not conceive that a system might be admirable to you that the bankers would not like, because they would not make so much money out of it?

Mr. COMSTOCK. I do see wherein it would differ.

Senator HOLLIS. No. Can you not see that a system might give you currency at reasonable rates, when you need it, on good security, and at the same time be less profitable for the banks than the present system? Can you not conceive that to be so?

Mr. COMSTOCK. Gentlemen, I say that this is the bank for banks only.

Senator HOLLIS. Yes. I am not talking about the regional banks, now—the reserve banks. I am talking about the whole currency plan that this bill is intended to enforce. Can you not see that your interests, as a business man, might be quite different from the interests of the bankers who are in the business to make money for their stockholders?

Mr. COMSTOCK. The banker would have to look at it from his own standpoint, but we are affected through him.

Senator HOLLIS. Do you not think that considering this bill, the bankers' interests might not cause them to look at it from a patriotic standpoint or the standpoint that we legislators are inclined to look at it from?

Mr. COMSTOCK. The difference is this: This bill contemplates the gradual retirement of the national-bank notes, founded on United States bonds, and substituting for those bonds a currency founded on property—collateral assets?

Senator HOLLIS. Yes.

Mr. COMSTOCK. Asset currency?

Senator HOLLIS. Yes.

Mr. COMSTOCK. I do not think that the banks generally or the business men would look with favor on currency founded on Government bonds wholly being replaced with asset currency. I would have the issue of asset currency in the way that I spoke of as a temporary measure only. I should explain right there that up to that point the general trouble the Federal reserve bank would have doing the business of this country just as every bank just now, whether national or State banks, and all the business men, and it would be no real asset currency, up to the point where it would be necessary to be issued. There would be $500,000,000 probably to-day, which would be ample for any event, and in the event of need or trouble that would be issued by the banks just as provided for in the bill. To those who had been members, not new ones, but to those who had been members. There you make the bank or the banks to be connected with a Federal reserve bank of that kind; in fact, it is a safety valve.

Senator WEEKS. I was interested in what Senator Hollis was just asking you, about the possibility of a difference of interest between the business men and the banks. Does not the prosperity of the bank depend on the success of their customers?

Mr. COMSTOCK. Oh, undoubtedly.

Senator WEEKS. And your success to some extent depends on the capacity of the bank to supply your needs?

Mr. COMSTOCK. Oh, yes.

Senator WEEKS. So that the interests to that extent are mutual?

Mr. COMSTOCK. Oh, yes.

Senator WEEKS. I suppose that you are familiar with the fact that interest rates in foreign countries are very much lower than they are in the United States?

Mr. COMSTOCK. Yes.

Senator WEEKS. And they are largely due to the system which obtains there relating to rediscounts?

Mr. COMSTOCK. Yes, sir.

Senator WEEKS. Did you ever notice the profits that are made by joint-stock banks in European countries?

Mr. COMSTOCK. No; I could not say that I was familiar with that.

Senator WEEKS. It is a fact that while interest rates are very much lower in every European country than in the United States, at least average much lower, that the average return on the capital of joint-stock banks in Europe is higher than it is in the United States.

Mr. COMSTOCK. Very likely owing to the large volume of business that they do.

Senator WEEKS. Not entirely that, but it is due to the fact that they can make use of their reserves all the time.

Mr. COMSTOCK. They could only make the difference on the reserve being used; that is all.

Senator WEEKS. On the reserves and then the methods of exchange, etc.

Mr. COMSTOCK. Yes.

Senator WEEKS. In other words, what I want to bring out is that high interest rates do not necessarily mean greater profits to the banks: and, furthermore, that the interests of banks and business men are as nearly mutual as interests of dissimilar occupations can be. You agree to that, do you not?

Mr. COMSTOCK. The business of a banker and a merchant?

Senator WEEKS. Yes.

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. Then you think it is for the advantage of the bank, generally speaking, to get as high rates of interest as it safely can?

Mr. COMSTOCK. No: I would not want to say that.

Senator HOLLIS. Why not?

Mr. COMSTOCK. I think it is the policy of a bank to be liberal. I think that they represent the best sentiment in every community in the United States, large or small, and it is the policy of that bank to do business right and treat people right, to win business and keep it; and I think the rates of money are governed to-day by locality, and sometimes the development of the country makes a great deal of difference. I speak now of one place that I went to before I went to Duluth—Saginaw, Mich. When I went there the banks were paying 6 per cent on deposits, and they were asking 8 or 10 per cent on their discounts, but gradually, as the place became older and lumber disappeared, the rates got down until they are now as favorable as they are in any other section of the West, but at that time they were higher. That was in 1874.

Senator HOLLIS. And the reason rates were high then was because there was large business enterprises that required money, and therefore those that wanted money bid against each other for it?

Mr. COMSTOCK. In a measure.

Senator HOLLIS. What other reason could there be?

Mr. COMSTOCK. That was it—the development of the country, the lumber business, and the lack of capital in the State of Michigan, which does not exist now.

Senator HOLLIS. And when the demand for money ceased then the interest rates fell?

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. That is true?

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. Then the higher rates were the more the stockholders of the banks earned in the shape of dividends; was not that right?

Mr. COMSTOCK. Yes.

Senator HOLLIS. And the more the lumberman had to pay for the money the less they made in their business; is not that right?

Mr. COMSTOCK. Oh, yes.

Senator HOLLIS. Therefore the interest of the bank and the customers of the bank were diverse, so far as the rates of interest were concerned?

Mr. COMSTOCK. Yes.

Senator HOLLIS. Just the same as the railroad and the shipper; while their prosperity is linked together in a measure, when you come to getting any particular rate it is for the interest of the railroad company to get as high a rate as it can and the shipper to pay as little as he has to?

Mr. COMSTOCK. Oh, yes; that is natural.

Senator POMERENE. Mr. Comstock, in speaking of your ideal bank you referred to some of the objectionable features of the present bill, and stated that you would make the bill so attractive that all the bankers would like to come in. I wish you would name all the features of this bill that are objectionable from the bankers' standpoint, and give your reasons for it.

Mr. COMSTOCK. I could not say that I discussed all of it with bankers, but generally they object to being forced out of the national banking system if they do not do this. I think that the desire of banks generally to rediscount paper, in ordinary times, is largely overestimated; and for that reason they would not use those features of the bill. The capital would be taken away from the larger banks and put into this without their getting the use of it, because it is not needed in that case. It is very different with smaller banks. I think that the smaller banks would use it, and I do not think the larger banks would. Of course, I could not speak for them, but I would not think they would consider it good business to borrow money from the reserve bank to loan again. I do not think with the present volume of money and currency that it is necessary to any great extent.

Senator POMERENE. Have you made any calculations to indicate what would be the relative advantages and disadvantages to the larger banks under this system as compared with the present system?

Mr. COMSTOCK. No, sir; I have seen some, but I have not figured it that way, in the case of any individual bank whether it would be better or whether it would not.

Senator POMERENE. You speak of the compulsory feature of this bill, that is, compelling national banks to go into this system, or leaving to them the other alternative of incorporating under the State law?

Mr. COMSTOCK. To make it optional with all banks?

Senator POMERENE. Yes. It is to be assued—whether we succeed or not is another question—but it is to be assumed that if we pass a bill here it is going to be for the best interests of the country, and we ought not to go into a proposition of that kind, unless that is so to be.

Mr. COMSTOCK. Yes, I should hope so.

Senator POMERENE. Suppose it is the judgment of Congress that this bill which is to be passed is to be for the best interests of the country. Do you not think that under those circumstances the compulsory provisions ought to be contained in this bill, because without them enough banks might decide for one reason or another to stay out, and thereby defeat the very purposes of the bill?

Mr. COMSTOCK. You mean that you would appeal to the loyalty of the banks to stay in against their interests?

Senator POMERENE. Yes, and I should think after we have had the benefit of the judgment of all interests in this country, including the banking interests, that it might be assumed that Congress was going to do what was for the best interests of the country.

Mr. COMSTOCK. Oh, yes.

Senator POMERENE. Under those circumstances.

Mr. COMSTOCK. I think they would.

Senator POMERENE. The measure ought not to be defeated because certain of these institutions might say, "Well, we will not go in"?

Mr. COMSTOCK. Oh, no.

Senator POMERENE. And abitrarily refuse to go in.

Mr. COMSTOCK. We look at it from the standpoint that if the banks would not go in it would affect our business, and it would affect the business of every business man in the country. It does not seem in our northwestern section that the bankers and business men are any different from what they are in other parts of the country. As I go about I find that they are very much alike, and I find that they are all likely to look at those things from their own standpoint.

Personally, I think it would be a disadvantage to the banks and the business public to pass the present bill in its present form. I do not think you could do a greater favor to the business interests and the people in the country and to the banks than to have a bill that would be acceptable to the bankers. I think that the bankers are pretty good judges of those things and I think they should be consulted in many ways.

Senator POMERENE. Do you not know that a good many bankers throughout the country have approved of the principle of the present bill?

Mr. COMSTOCK. I did not know it.

Senator POMERENE. There is no doubt that some disapprove.

Mr. COMSTOCK. Undoubtedly; you will find them of different minds.

Senator SHAFROTH. If we were to make a bill satisfactory to the banks and let them write it, it would be a pretty good bill for the banks, but it might not be a good bill for anybody else.

Senator POMERENE. Have you come across sentiment to this effect, that there are a good many of these country bankers who say that they favor this measure, but they do not like to be publicly quoted against the reserve banks?

Mr. COMSTOCK. Oh, no, sir. I have not met anybody of that view at all who have expressed their sentiment on it, and I think from what I have heard that the country banks would not favor it in that form perhaps, but what my idea was, and the only difference I would make, would be to have the bill attractive on its own merits rather than to force the banks into it.

Senator POMERENE. We all hope to have it attractive.

Mr. COMSTOCK. Make it optional.

Senator POMERENE. And particularly attractive to the country generally.

That is all.

Senator SHAFROTH. When it is to the advantage of the banks in business, as it has been figured out here in several instances, is not that sufficient to attract them?

Mr. COMSTOCK. To those banks, yes; but banks generally.

Senator SHAFROTH. And when you add to that the reduction of the amount of reserve required, releasing 3 per cent in country banks and 7 per cent in city banks, and knowing that all banks build up credits upon the amount of capital which they have of from four to eight times, it seems to me that it is a very attractive proposition to the banks. Do you not think so?

Mr. COMSTOCK. No. But your bill contemplates the withdrawal of the present national bank system. You remember that that is where I started, with my admiration for that system, and I followed it through 50 years of business life. We do not want to see a radical step in changing that system. This changes it radically, withdrawing that currency and substituting for it entire asset currency.

Senator SHAFROTH. Then you want the present bank currency to remain?

Mr. COMSTOCK. Oh, certainly. I should start with that. I should say that the present currency of our Government is ideal, and I say that the present banking system for those who voluntarily choose it in preference to State banks is ideal, and the currency they both furnish is ideal, and it is ample for all the business needs of this country, but I would supplement it with asset currency which would be retired after its use, for a third system, in conjunction with the two that we have got now.

Senator HITCHCOCK. I wanted to ask you whether under ordinary circumstances business men in the Northwest find banking facilities adequate?

Mr. COMSTOCK. Adequate?

Senator HITCHCOCK. Yes, sir.

Mr. COMSTOCK. Oh, entirely so.

Senator HITCHCOCK. And interest rates reasonable?

Mr. COMSTOCK. Very reasonable.

Senator HITCHCOCK. And the depositaries safe?

Mr. COMSTOCK. Perfectly.

Senator HITCHCOCK. And the currency perfectly good?

Mr. COMSTOCK. Perfectly good.

Senator HITCHCOCK. Do you find any great urgency out there for a great change?

Mr. COMSTOCK. No, sir.

Senator POMERENE. Have you money enough to move your crops?

Mr. COMSTOCK. Plenty. I understand that the Secretary of the Treasury offered it to a good many banks, and they said they did not need it. It is the offer that removed the necessity.

Senator HITCHCOCK. It was a good thing?

Mr. COMSTOCK. Yes. He is a good man. That is the very thing we are at now. When the time comes we want to have it. You may not take it, but you want the opportunity to get it.

Senator HITCHCOCK. We will call on Mr. Clark next.

Senator WEEKS. I hope that if there are any country bankers anywhere who are being coerced by reserve city bankers into opposing or favoring this bill that they appear before the committee so that they will have their testimony. We hear from time to time about bankers being coerced, and I would like to hear some of them.

STATEMENT OF HOVEY C. CLARK, LUMBER MERCHANT, MINNEAPOLIS, MINN.

The CHAIRMAN. State your name, residence, and business.

Mr. CLARK. My name is Hovey C. Clark, and my largest interest is in the lumber business. I have not been in active business for about two years.

Senator HITCHCOCK. Your address is Minneapolis?

Mr. CLARK. My address is Minneapolis.

I am not a banker. I have stayed on the outside of the counter for 30 years and have been a borrower. There is an intimate relationship between the grain people and the lumber people in this way that the lumbermen commence taking money from the bank during the winter months, when they are putting in their supply of logs, and repay it as soon as the crop commences to move in the fall. The grain people take their money in the fall to handle their grain and repay it when the crop has been moved, and then the ball rolls again and the lumberman takes it. So far we have had credit enough in both of these lines to take care of our business in good shape, except in times of panic, and I find now that our people are somewhat alarmed over a fear of a curtailment of that credit. We may be unnecessarily alarmed. I think I can go back safely to the Northwest and say that nothing is going to be done in a hurry; that we are going to take enough time to get a right bill. I feel a great deal better about it, I want to say, since I have been here. But there are some features of this bill which my conferees have touched, but the discussion of which they have left to my knowledge, and that is the segregation of the savings deposits in the national banks. The comptroller's report of June 4, 1912, states that those deposits were $829,000,000. The savings department of a national bank, as I understand it, differs very largely from a pure and simple savings bank, inasmuch as the regular customers in the commercial line of a national bank open these savings accounts for their wives, their children, or some special savings account, and the people who patronize and form a large proportion of the savings depositors of a national bank are in a very close measure allied to the commercial interests. These savings accounts are subject to check; in fact, they are simply certificates of deposit in a book shape. Of course if a man draws out his account between periods he loses his interest. He

also loses his interest if he draws on a certificate of deposit, which is a demand deposit; that is, savings deposits.

There has been very little money lost to the depositors of the savings departments of national banks. I have not the figures, but I have in a general way the idea that the pure and simple savings banks have lost more money to their depositors than the savings department of the national banks.

Senator POMERENE. Have lost more, did you say?

Mr. CLARK. Very much more. I have not got the figures; I expected to have them, but I did not get them.

The question arises in my mind that if you segregate and permanently invest in bonds and mortgages and investments of a permanent nature these savings deposits of $829,000,000 you take that much from the credit for the commercial use in the banking world.

All I can add is, Why do you want to segregate it?

Senator HOLLIS. I might say this: Do I understand that you say that money that is put in savings banks we lose the use of?

Mr. CLARK. If they draw it out between periods.

Senator HOLLIS. Somebody is using that money, just the same.

Mr. CLARK. I say the depositors.

Senator HOLLIS. Oh, yes.

Senator BRISTOW. But did I understand that one of the objections you made to the savings-banks department was that those deposits could not be used under this bill for commercial purposes?

Mr. CLARK. They can not be used under the new bill; no, sir.

Senator BRISTOW. And that you are afraid that that will contract the amount of credit or currency that can be used for commercial purposes, by withdrawing that deposit which now can be used?

Mr. CLARK. Yes, sir.

Senator BRISTOW. That was the point that he made.

Senator HOLLIS. You understand, of course, that when money is put in savings banks it is invested in stocks, bonds, or loaned just the same. That is not withdrawn from the use of the commercial world in any sense?

Mr. CLARK. It is withdrawn from the use of the commercial world in the sense I use it—everyday sense—that when a business man wants to go and borrow money, that he can not borrow it from a savings bank.

Senator HOLLIS. It has to be invested in something, and when you buy stocks, bonds, or mortgages with it you release just so much more money that goes back into commercial channels; you do not lose the use of money in the savings banks.

Mr. CLARK. You do lose the use of the money.

Senator HOLLIS. I think you have got to consider that.

Mr. CLARK. If you consider that you will find that the use of that money is lost to the commercial world.

Senator NELSON. I might say from my observation in the West that while the national banks have, in substance, done what you call a savings-bank business, they have done it in the form not of bank books but of time certificates of deposit. They issue time certificates of deposit drawing interest payable in six or nine months or a year, with the condition that if the money is drawn out before the specified time they lose the interest. That is the way most of the little country national banks that I have observed have been carrying on a sav-

ings-deposit business, but the funds have been mixed with the other funds of the bank and utilized in the same way.

Senator SHAFROTH. I do not understand exactly your conclusion, because section 27 reads as follows:

> That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department.

Mr. CLARK. Yes.

Senator SHAFROTH. If it can open a savings department and run a savings department as it is now I do not see that there is any change in that respect.

Mr. CLARK. The change in that respect is that instead of the money going into the commercial use, as it says on page 47, line 10:

> The savings department of each such national bank shall be authorized to accumulate and loan the funds of its depositors, to receive deposits of current funds, to purchase securities authorized by the Federal reserve board, to loan any funds in its possession upon real estate or other authorized security, and collect the same with interest, and to declare and pay dividends or interest upon its deposits——

Senator NELSON. There is the point, Senator.

Senator SHAFROTH. Wherein does that differ from their practice right now?

Mr. CLARK. Because the money right now is put in with the other deposits of a national bank and loaned on commercial paper. You could not loan savings-bank money on commercial paper according to this.

Senator SHAFROTH. It says to purchase securities and loan any funds in its possession upon real estate and other authorized securities.

Mr. CLARK. It means permanent investment, because it provides that there shall only be a 5 per cent reserve kept against those savings as against a larger percentage for the commercial funds.

Senator POMERENE. When you make that statement do you have in mind the provisions of this bill or some provision that may be peculiar to the Minnesota law?

Mr. CLARK. No; the national law, just as every national bank is operating under to-day.

Senator NELSON. I think this brings us back to what this gentleman from Missouri said yesterday about how the banks have violated the laws, but it had been ignored. I think national banks really had no right to invest in this kind of securities—stocks and bonds. I think that was outside the purview of the law.

Mr. CLARK. They do not do that now.

Senator NELSON. They have invested in some of them. It has been winked at and no attention has been paid to it, but I think if it had been tested the probabilities are that the courts would have ruled against it.

Senator HOLLIS. The courts are compelling the sale of stocks and bonds and telling them that stocks and bonds are not legitimate investments.

Senator NELSON. This provides they may lend on real estate.

Mr. CLARK. It does make a change, because it authorizes them to loan those funds on certain securities.

Senator SHAFROTH. And they have been loaning them on those securities.

Mr. CLARK. They have not been loaning them on those securities. The national banks that have done it have violated the national-banking act, and there are very few that have done it.

Senator SHAFROTH. Then you think the power to loan on those securities is an impairment of the bill?

Mr. CLARK. No; but they have got to invest this money. It is not a loan; it is an investment. They have got to invest in a farm mortgage running 5 years, but not in this commercial note running 90 days.

Senator SHAFROTH. Do you not think, as a matter of fact, when these securities are placed in the bank on time that there should be additional caution exercised with relation to that money so that the depositor will be sure to get his money back?

Senator NELSON. Yes; but our theory is, Senator, that this short-time commercial paper, notes, or bills of exchange is the very best of security.

Senator SHAFROTH. Evidently some of the banks do not think so, because some of the banks are doing this very business now and have been complaining that they could not do it. It seems to me that when they complain that they can not do it—and in response to that complaint we put in this savings clause, giving them additional power—it should be an advantage to them, and it should be recognized as being a point in the bill to its advantage.

Senator NELSON. But you know the gravamen of his statement is this: That they diverge a certain proportion of the deposits from the ordinary commercial purposes into this form of permanent investment.

Senator SHAFROTH. I will warrant that if you ask any national bank if they would rather have that power in there or that power out of it, they will say leave it in; and if that is true, why is it not to the advantage of the bill instead of to its disadvantage?

Senator NELSON. That may be from the standpoint of the bank, but Mr. Clark speaks from the standpoint of the borrower—the business man who has to go and make his commercial loans.

Senator SHAFROTH. I understand that provision is put in there for the purpose of making more secure the money that is put into a bank as a savings account; and if that is true, and the banks have been hampered by reason of not having that power heretofore, it seems to me, from an entire view of the scope of the bill, that it would add to it instead of detract from it.

Mr. CLARK. Does any banker object to the savings departments as they are now?

Senator SHAFROTH. I understand that provision was put in there for the purpose of giving them enlarged power.

Senator HOLLIS. To make it more attractive?

Senator SHAFROTH. To make it more attractive.

Mr. CLARK. It would certainly take that much away from the loaning powers for active business. The investment in real estate ceases that same day. Investments in a 90-day note has got to be paid at the end of 90 days.

Senator HITCHCOCK. Mr. Clark, you came down here under the impression that this bill was to be hurried through?

Mr. CLARK. No, sir; I hope not.

Senator HITCHCOCK. I say, you came here with that impression?

Mr. CLARK. We thought it would only be a very short time before it would be passed in this form or some modified form. We wanted a chance to express our views.

Senator WEEKS. How did you acquire that impression?

Mr. CLARK. It is a general impression that has been spread through the country that the hearings would last but a week or two longer.

Senator HITCHCOCK. But what sort of a feeling did that create among business men in that section?

Mr. CLARK. We felt that we had not been properly heard or represented. I was asked by Mr. Winston, here, if I would come down, knowing my connection with the lumber business, and say what I thought about the bill as it would affect the borrower.

Senator HITCHCOCK. You thought that the country that was affected ought to be given an opportunity for hearing?

Mr. CLARK. Yes. Mr. Winston says that he had a telegram from Senator Owen saying that the hearings might be completed before we had had a chance to get here.

Senator HITCHCOCK. You spoke of the lumber business and the grain business working well together, for the reason that the lumbermen borrowed their money in the spring and that they did in the fall?

Mr. CLARK. Yes, sir.

Senator HITCHCOCK. And the grain men borrowed theirs about the time the lumbermen were paying theirs off? About what length of time does a lumberman borrow money for?

Mr. CLARK. From six to nine months.

Senator HITCHCOCK. And does he give a note for six or nine months?

Mr. CLARK. He gives a six month's note usually.

Senator HITCHCOCK. And that note, under the terms of this bill, would not be available for use at the reserve bank?

Mr. CLARK. Not for 90 days.

Senator HITCHCOCK. And for what length of time does a grain man borrow the money?

Mr. CLARK. A grain man commences to borrow in the fall for a long time toward spring and as soon as the elevators fill up he borrows on demand, so that if he sells his grain out of the elevators he can take up his paper.

Senator HITCHCOCK. Do you know about what the average length of note is?

Mr. CLARK. They generally give a six months' note.

Senator HITCHCOCK. In each of those cases the note is supposed to liquidate itself; that is, it is supposed to be paid out of the transaction for which it was given.

Mr. CLARK. I should say 75 per cent of it.

Senator HITCHCOCK. So that it is just as legitimate commercial paper as the 90 day paper given by the merchant?

Mr. CLARK. O, just exactly. A lumberman gives his note for six months, say, in February, and it comes due in six months from then. It may be that his collections have not been ample, and he will ask for may be a 30 day extension.

Senator HITCHCOCK. And that is true of a number of interests in the West, the cattle interest, for instance?

Mr. CLARK. The cattle interests borrow in the fall to buy their cattle and to feed, and they do not pay up until the spring, until they get a good ready.

Senator HITCHCOCK. And then the sale of the cattle produces the money to pay the obligation, just as much as the sale of merchandise produces the money to pay the note the merchant gives for 90 days?

Mr. CLARK. Exactly.

Senator HITCHCOCK. So that is just as legitimate a commercial transaction as this so-called "prime commercial paper"?

Mr. CLARK. I think it is more so. We consider in our country that the "grain" paper—what we call "terminal" paper or "terminal receipts" is the very best collateral paper, and that better can not be had.

Senator HITCHCOCK. As western business men you think that paper should be taken into account and not altogether ignored as it has been in the present bill?

Mr. CLARK. I certainly think it should be taken into account.

Senator HITCHCOCK. And you approve of the idea of the national bank having a savings department?

Mr. CLARK. Yes, sir.

Senator HITCHCOCK. And you think that the deposits coming from savings accounts should be used in commercial loans?

Mr. CLARK. Yes.

Senator HITCHCOCK. The same as time deposits?

Mr. CLARK. Yes, sir.

Senator HITCHCOCK. Suppose that, as occasionally happens, the depositors in such a savings department of a national bank become alarmed and start a run on the bank. What resource would the bank have?

Mr. CLARK. They would have only their reserve, which is 25 per cent now in our city.

Senator HITCHCOCK. They would have no other reserve; they would not be permitted to give the 30 day notice which ordinary savings banks give?

Mr. CLARK. No; I do not know whether that pertains to our savings department or not.

Senator HITCHCOCK. Such a notice would not be of any use to them, would it?

Mr. CLARK. I think to increase lack of confidence.

Senator HITCHCOCK. It would simply carry the alarm to the depositors or the main bank?

Mr. CLARK. Yes, sir.

Senator HITCHCOCK. For that reason, do you not think it is a dangerous thing for a bank, having a great volume of demand liabilities, to have under the same roof a department of savings where are received the savings of people, many of whom are illiterate and many of them easily alarmed?

Mr. CLARK. They do not have that class of depositors; that is what I made a point of.

Senator HITCHCOCK. In the savings banks?

Mr. CLARK. Not the national banks. The national banks savings depositors are generally, as I say—a man opens an account for his wife, and says, "I will put so much money aside," or a man opens

an account for his child, or something of that kind; and he is doing business with the commercial end of the bank.

Senator HITCHCOCK. Then you think it would be safe, because the same class of people do not patronize a national bank in its savings department that patronize an ordinary savings bank?

Mr. CLARK. Yes; that is the reason.

Senator HITCHCOCK. What is to prevent them patronizing it?

Mr. CLARK. There is nothing to prevent them patronizing it; but the savings banks usually pay a greater rate of interest. The savings bank in our town pays 4 per cent, and the national banks only pay 3.

Senator POMERENE. Just one question. You speak of your paper being for the most part six-months paper?

Mr. CLARK. Yes, sir.

Senator POMERENE. Of course, under the terms of this bill, any of that paper could be used after 90 days?

Mr. CLARK. Yes, sir.

Senator POMERENE. Would it seriously inconvenience your people up there if after this bill became a law and there is no change in that behalf, to say to your customers:

> Now, we have changed our rules somewhat here because of the new bill, and hereafter we would like you to give us your paper for 90 days, and renew it at the end of 90 days for another three months.

Mr. CLARK. I would not do business with a bank that would make a promise of that kind.

Senator POMERENE. That is your individual view?

Mr. CLARK. I know that is my individual view.

Senator POMERENE. How is that going to inconvenience your people? Most of the national banks, at least in my city, never loan money to exceed three or four months.

Mr. CLARK. Well——

Senator POMERENE. With the understanding that it will be renewed probably.

Mr. CLARK. The man who borrows money on the probability is in danger of getting in pretty bad shape in lumber or grain business. If he got the money he has got it.

Senator POMERENE. If you loan it for six months now and it is good security for a bank to accept a note of that kind, I do not understand why it would change the situation very much if the bank would take 90-day notes and at the expiration of the 90 days renew it for another 90 days.

Mr. CLARK. At the end of the 90 days the bank might have out obligations enough so that they would say:

> We have taken on more paper and we are not in as good shape as we were when we loaned this to you. You will have to pay part of it.

Senator POMERENE. Is not the real objection to that feature of this bill simply that they do not want to change their form of doing business?

Mr. CLARK. No, sir; it is because it is the right way to do business; and another thing: You would be giving your banker a pretty good "rake-off" in 30 days, and then he would get the interest on the interest for another 30 days.

Senator O'GORMAN. Mr. Clark, is not there another reason why the change suggested by Senator Pomerene might not be a wise one? The value of commercial paper depends upon the probability that it will be met at maturity?

Mr. CLARK. Sure.

Senator O'GORMAN. And you say from the conditions prevailing in dollars and cents in your section of the country if you were to give a three-months note and the bank was willing to accommodate you, the bank would know and you would know that you would not be able to meet that in three months, at the time of its expiration or maturity?

Mr. CLARK. Senator, the banker knows as much about the business of the individual it does business with as the individual does about himself. You go and open up your heart to your banker and take down and show him everything you have got, and he knows just as much about you as you do yourself, and if you should go and say, "Mr. Banker, I give this for 30 days, but you can see my condition and you know mighty well I can not meet it. If I make it six months, I can make it." He says, "Make it for six months." And when we give six-months paper we make arrangements to meet it.

Senator O'GORMAN. That, of course, is very plain, but the point I am trying to suggest, not only to you, but to my colleagues, is that in a case such as suggested, if the bank were willing to accept your three-months note, knowing you could not meet it at the end of three months, and you knowing that you could not, but there being the ready understanding that at the end of three months there would be a further renewal, if the bank needed to discount its paper your initial three-months note could not be regarded as prime commercial paper?

Mr. CLARK. It certainly could not; no, sir.

Senator O'GORMAN. Because the bank could not represent it as paper that would be paid at maturity?

Mr. CLARK. No, sir.

Senator O'GORMAN. And the officers of the regional bank, therefore, would be justified in refusing to accept it?

Mr. CLARK. Yes, sir.

If you will notice on all the lists that are sent out by commercial brokers of paper, it is six-months paper that they sell. There is very little short-time paper sold by commercial brokers. It is not only the custom, but people have regulated their business accordingly. If you overturn it——

Senator NELSON. That is, jobbing houses and manufacturing houses?

Mr. CLARK. Yes.

Senator NELSON. The jobbers handle their notes through these brokers.

Mr. CLARK. A broken may take a man's note for $1,000,000; then he takes and disposes of it.

Senator NELSON. And that is six months' paper?

Mr. CLARK. That is six months' paper; yes, sir.

Senator POMERENE. Do your banks discount much paper of that kind?

Mr. CLARK. When we are in funds we go to the commercial broker and buy paper, because it is not then individual paper. When that paper goes out the individual does not know who holds it. He knows it has got to be paid. We buy paper to run for——

Senator POMERENE. This paper is maturing all seasons of the year?

Mr. CLARK. Usually; yes, sir.

Senator POMERENE. And what portion of your funds are invested in that class of paper?

Mr. CLARK. That would be very hard for me to tell, Senator. I do not know. There will be times when we will have every dollar in the banks of Minneapolis loaned to home people, and when we have a good crop year, as we have got this year, and everybody pays up, we will have plenty of money and want to put it out at 30 or 60 days.

Senator HITCHCOCK. I guess we are ready for Mr. Winston.

Senator BRISTOW. Just a moment: You say you want to put that out for 30 or 60 days, and there are brokers in the country that are waiting for just such conditions in the various sections. Whenever they find that condition exists, they then are offering this commercial paper that matures in 30 and 60 days because they get a market for it?

Mr. CLARK. They usually offer what is called demand paper, if there is any of that kind, but there is not a great deal of that paper.

Senator BRISTOW. You spoke of the cattle feeder. That is the cattle feeder who buys his cattle along in the summer time, does he not?

Mr. CLARK. Yes, sir; and feeds them.

Senator BRISTOW. He buys them in the fall and turns them off in the late winter and along in the spring?

Mr. CLARK. Yes.

Senator BRISTOW. Is not that regarded as good security for the loans of your bank?

Mr. CLARK. It is with the people that know the cattle business. But take it in our part of the country up there; we do not know very much about cattle paper. You take it in Montana, and the Montana feeders, he may be keeping an account in one of our banks, and the banker may take that paper as an accommodation to him, but it is not well known.

Senator BRISTOW. That is a long way off. But in your local community—I do not know how it is in your State, but in Kansas there are certain men that are in the cattle business. That is their business and they do nothing else.

Mr. CLARK. We do not have much of that up there.

Senator NELSON. I want to say to you, Senator, that the men over in Nebraska and Iowa come up in our State and buy young steers and cattle for feeders, and take them down in Nebraska and Iowa and feed them. So I assume they get their accommodations from their home banks.

Senator BRISTOW. They get their accommodations from the home banks, and the home banks in our section of the country carry a great deal of paper of that kind, and it is regarded as very good indeed, because the bankers are dealing with the men year after year.

Mr. CLARK. They know all about it.

Senator BRISTOW. That paper would be in the same condition, so far as any utilization under this bill is concerned, as this paper of the manufacturers you speak of.

Senator NELSON. Of the flour men, the lumber men, and the feed men.

Senator BRISTOW. It is six and eight months' paper?

Mr. CLARK. If it runs for any length of time it is good money.

Senator HITCHCOCK. We will now hear Mr. Winston. Mr. Winston, will you kindly state your full name and address for the reporter?

STATEMENT OF SAMUEL G. WINSTON, ESQ., OF MINNEAPOLIS, MINN.

Mr. WINSTON. Samuel G. Winston, Minneapolis, Minn. My line of work, the business I first went into and which I am in to-day, was railroad and general contracting, in 1878. In a contract way, it has been since 1874, but in a large way since 1878. The next business I went into, and what I am representing here to-day, was the wholesale grocery business, which I went into in the spring, in April, 1893, just before the panic broke. The next business in which I have been identified, not in a very active way, but still active, is in the banking business as vice president of the Security National Bank.

Now, in my connection, I will start and work back—in my connection in the bank business in 1893 I was a director and I went through that part and learned my lesson, what little I know about banks, in the troublous times beginning in 1893 and then in a little more of what you might call an official capacity in 1907.

But before I go any further I want to state right here to the committee that I thank you gentlemen very much. We came down here with a good deal of doubt; in fact, to be perfectly frank, the night before we left we took lunch together and talked the matter over and it was quite a question with us whether we should come at all, or not. The papers had stated that this bill was to be rushed through, that it had to be passed before this Congress adjourns, whether or not, and at the hearing the President, the Senators, and Representatives in Congress had gotten behind this particular bill and classified it as an administration measure, and it must be put through and put through at once. Of course, we got our information in the usual way, in the newspapers.

Senator WEEKS. Of course you do not reflect on the newspapers?

Mr. WINSTON. Not at all, but I mean the information was not justified. We came here, gentlemen, and we find your Senators feeling just as careful a responsibility of the duties falling upon you as we would and as we could do were we in your places. You have listened to my colleagues; you have asked them for their personal opinion on this measure, and you have listened attentively, and that means, to my mind, it has undoubtedly been because you wanted to know their honest opinion fully expressed, and you have given a chance to them, and I want to thank you.

I know your time is very short, and I want to try to get through, because I know you do not want to be bothered with us to-morrow, so I will just touch lightly upon the questions that are before the business man's mind in connection with this whole business. There is one point that has been raised as to the necessity or recognized necessity for this legislation. The first one is a question of making

the banks safer. How does the business man feel about that? Some business men may feel that you can make things better—that you can bring about by legislation and supervision a perfect measure, so that no depositor and no creditor of any bank in the United States need ever concern himself about losing a dollar.

Some while ago I took the comptroller's report of 1911, and, to my surprise, my eye alighted on a statement showing the loss to depositors in the national banks in this country since 1864. I am not going to go into it very fully except, my interest being aroused, I classified those losses as to periods—time. I find that the total losses of all the depositors in all of the national banks during their history and covering a period of 44 years was $37,500,000 up to and including 1909. I was then a little bit interested, and I wanted to find out why we had those losses, so I classified them and cut it off into periods, and I find that, in the seven years commencing in 1891 and ending in 1897, we lost, of that total amount $19,600,000, or 52 per cent. Now, we learned a lesson in 1893 and the history following 1893. Commencing in 1898, including 1898 in the second period and running to 1909 and including it, making a period of, I think, 12 years—I find there has been a total loss in the 12 years of, I think, $1,400,000. Those are my figures from memory, and I think they are right.

Senator BRISTOW. Did you ever figure out the percentage of the deposits?

Mr. WINSTON. Yes; I am going to get to that. Now, then, I have not the figures absolutely correct, but in a way I am going to make a pretty close guess. In the 12 years, from 1898 to 1909, I think it is safe to say that the average deposits placed in the hands of the national banks by the people of this country averaged $5,000,000,000.

Senator BRISTOW. $5,000,000,000?

Mr. WINSTON. $5,000,000,000. On that basis, the average for each year's loss to depositors of the national banks was $375,000. Carried down to a mathematical calculation, it resolves itself down to a loss of $25 on every $1,000,000 of transaction, or 0.75 of one-hundredth of 1 per cent.

Senator NELSON. Of 1 per cent, you mean?

Mr. WINSTON. Oh, no: of a one-hundredth of 1 per cent, and that to my mind speaks volumes that the American people ought to thoroughly understand. First, because we need confidence in each other in order to understand each other, to get closer together and trust each other.

Senator. BRISTOW. Now, Mr. Winston, I want to get this clear in the record. That is, for the last 12 years, according to those figures, the losses of depositors in the national banks of the country have averaged, approximately, three-quarters of one-hundredth of 1 per cent per annum?

Mr. WINSTON. Yes, sir: absolutely. Three-quarters of one-hundredth of 1 per cent. Now, that speaks volumes for what? Of the character, the honesty, and the capability of the men that are handling the vast sums of money. It tells us that there are 7,000 banks with 7,000 presidents and cashiers and assistant cashiers, making an army of our American citizens, and after 12 years' handling, as trustee, an average of $5,000,000,000 a year, they have returned it honestly

to you. It tells you further, that in turning this money over an average of every four months, they have made transactions amounting to $15,000,000,000 in each year, with the result that at the year's end they can say, in loaning $1,000,000 for you and turning it over three times, we have lost you $25. Now, that settles in my mind and in the business man's mind the question of whether we can or not, and whether it is necessary, in order to make our banking system safer, so as to prevent losses to the innocent depositor—whether we should engage in further legislation. I will dispose of that question right there. We have men in this country that have the capacity to run banks without losses. Those same figures tell you the story. Now, we have disposed of that question in all this discussion about banking and currency reform.

Something further: Have the business men of the country reason to get close to that class of citizens as depositors, as friends, as men that they can depend on in time of trouble to do the right thing by the business man? That question shows surely, that those men have done that thing. Not very many of them have been dishonest. Most of them have shown business capacity and good judgment, and therefore in our line of work we do not know of a better counsel on financial questions than men of that character in charge of our banks—big and small. And it has been the custom, in our western country, gentlemen, that the best friend of your business man, so considered by us in Minneapolis, next to his own brother, is his own banker.

You must not consider in any legislative programme here worthy of your consideration that you can divide the very mutual and necessary relations between your banker and your business man. The banker depends on his business man for his business, and the business man depends on his banker for his counsel and his money when he wants it. Sometimes—we are not proud people up our way: we are very democratic—a banker, when he has funds to loan and he wants to put out a little more money, he does not stay in his bank office and ask his good customers, or wait for them to come to him, but he puts on his hat and says, "I want to put out $500,000 of paper to-day," and he comes down to your office to do business with you; and when he gets down to your office you are glad to see him because you love him; he is your friend; he is your close business associate; he is your financial adviser; and you have got him in your office coming to ask you to take some of his money; and as an accommodation to that banker you take it at your own rate of interest, satisfactory to you. You say, "I can use it for 60 days, and I can pay you so much." You get your money. It is only when the time comes—the reverse side comes and the bankers have not the money, they have the deposits; the deposits are there just the same, but they have not the money—that the business man puts on his hat and walks up to the bank. The president says: "Now, my friend, you are a valued customer of this bank and you know we want to do anything we can for you safely. We are trustees and we must look after the interests of our depositors in our bank, and just as far as it is possible for us to go we want to do so, but we have not got the money." What does that mean? It means that banker has not got the money because our currency is not flexible, and we need nothing on God's earth in connection with the banking business of this country except a

flexible currency. I think that is conceded. If we are going to work here to build up a very elaborate system of scientific fiat money or paper currency based on commercial assets, I am not prepared at this time to even suggest the basis on which you should build that structure. I am not capable of giving you any advice or an opinion which would be of any value to you, so I am not going to do it. But I went through the panic of 1907 and, to be perfectly frank with you, at that time we were doing work which involved an expenditure of $1,100,000 a month almost entirely on pay roll.

Senator NELSON. Your firm?

Mr. WINSTON. Yes, sir. That is, in that branch of the business. And when the banks in Minneapolis closed up we did not know where to get the money to take out to the mountains of Montana and pay our men, and we went to everyone. I walked the streets of Minneapolis, and I went to Chicago to the railroad companies, the men who we were doing work for, and I asked them for money currency. "Mr. Erling, let us have $100,000." I went down to the Northern Pacific, who owed us just about as much more, and they said, "Here are our receipts in cash. We can only let you have $50,000." I bought express order receipts coming in for the payment of goods, took them to the express office and cashed them: telegraph-order receipts, and took them and cashed them, and I got every little dollar I could. But, as it happened, we were doing business in Montana in a little town called Missoula, and had been for six months, and had a little branch office, and they had loads of money. That one little bank had out there $250,000 more money than they ever had been accustomed to carry, and they said, "Mr. Winston, you can have this $250,000; you can have all that you need of it." Now, we found money in Montana. We could not find it in Minneapolis. In Minneaepolis they had as much money as they ever had, but the minute they opened the doors it would all have been gone out for the wheat fields in Montana. We took the money out on a loan to us, and we took it out on the line and loaned it, and pretty soon the men went out and bought cigars and whisky around the town and very soon it went back again. There was our situation, and all for the lack of credit.

I am perfectly frank to say to you that at that time on deposit in my own bank we had more money on deposit than we needed to do this work, but we could not get it out. I could not go and ask the bank I was connected with and had been with these many years to treat me any different than they would anybody else. I could not do it, and they would not do it if I had asked them to. I found myself in that situation solely because of the lack of greenbacks. We could issue all the checks we wanted and send them to the clearing house to pay off customers, but you could not take a check and send it out into Montana, out in the woods of Minnesota, and offer it to the man who worked for us at so much a month. He would not know what to do with it. He had to have the money for it. So the 1907 panic, gentlemen, was simply a dearth of cash at some parts of the country and a superabundance of it at other parts. The machinery of sending it out and bringing it back did not work quick enough. If all of that money that the New York banks sent out, currency, and sent out and bought wheat with it through the country banks to send out and pay off labor in the wheat fields, had the next minute

been put in an express office and sent back down to New York we would not have had the trouble. But it stopped: circulation stopped. Lack of confidence or something came in there, and this flow stopping, New York was exhausted. Now, New York was exhausted because we ran on them, gentlemen.

If you were going down here to-morrow morning and as you walked up the street you found all the people of Washington at the doors of one of your strong banks demanding that they turn over immediately all the money they owed them, and the bank shut its doors, you would not blame the bank. You would blame the people that ran on them to the point, the unreasonable point, that they exhausted them. Now, the transaction that resulted between New York and our people out there was simply a run. Our president did not get on the train and appear down there in person, and he did not send the cashier down to appear in person, but they all sent telegrams and sent letters and messenger boys, running into the bank all the time, "Send us cash! Cash!! Cash!!! We want to draw the balance out." Now, that was not an evil intention upon the part of the New York men. We knew that, but it was his inability. Just suppose at that time (this is simply a business man's view) you had some place that when New York found that the country needed $200,000,000 more money—we will put it that way; that is a big lot of cash—and they could go and get it, we would not have had the panic of 1907. It was a useless panic. It was not a credit to the Nation. The credit of the people was never better; crops were never better. The people in the South were getting as high as $60 a bale for cotton in November. I made some calculations and want to tell you what it cost the farmer. It cost in the months of November and December, in money returns alone over October prices, something over $15,000,000 in cotton. Barley in our country went from $1.12 down to 60 cents, Senator Nelson, almost in a day. In the stockyards in Chicago there were 1,200,000 hogs marketed at a cost of 1½ cents a pound less than they had been previously in the last two months, and I figured that out at $4,000,000. There was the cotton men who lost about $15,000,000; the men who sold us hogs in Chicago in those two months lost $4,000,000; and so on down with the grain. I figured out in the whole thing, I think, somewhere, one day, $25,000,000—almost a million dollars a day for the period that that panic lasted.

Senator NELSON. Losses to the business world?

Mr. WINSTON. Losses to the farmers of this country, simply because of the lack of some piece of machinery—governmental control, if you please—that could have stepped in and filled the void.

Now, that is what we need, gentlemen, something to fill a void. This bill here is entitled "Federal reserve act."

Senator HITCHCOCK. Would you care to be interrupted there?

Mr. WINSTON. Yes.

Senator HITCHCOCK. I want to ask you: Suppose the New York banks had been able at once to go to a reserve agent and get an almost unlimited quantity of currency or get commercial paper, they would have done that, of course, at that time and supplied the country?

Mr. WINSTON. Yes.

Senator HITCHCOCK. And what then would have checked the great expansion of speculative loans that really brought on the trouble?

Mr. WINSTON. I will tell you what. A tax on that currency that would absolutely prevent it from becoming fixed. As an illustration we will just take our western country. We needed at that time money to ship cargoes of wheat from Duluth to New York, where we could get an ocean bill of lading. It took three weeks, estimated, but probably it took four, to take those cargoes of wheat lying in the elevator at Duluth, ready to be shipped on export orders, convert it into money, foreign bills of exchange, and we could not finance them from Duluth to New York, where we could this foreign bill of exchange. We could not get the money to finance that between New York and Duluth. Now, suppose we had had some first-class commercial paper and you had an agency to be used entirely for emergencies, held in reserve, in deposit out of use, but there ready, like a savings account of the individual, and I came to you and after proper methods of inspection and certification you let the Northwest have that money for first-class notes. We could have financed ourselves regardless of New York.

Senator HITCHCOCK. Then it is your conclusion that this elastic currency is not needed for ordinary seasonable demands, but only for emergency cases?

Mr. WINSTON. For emergency cases.

Senator HITCHCOCK. Is that generally the opinion of the people in your section of the country?

Mr. WINSTON. I do not know, sir. I am going to get to the next part and then you can ask me some further questions, if you please.

You have heard these gentlemen from Minnesota, and you have heard your credit men from the National Credit Men's Association. I have sat here and listened to them. The individual opinions expressed by my colleagues were their individual opinions. They feel uneasy about this bill. You can not disguise that fact, and the business man feels uneasy. He feels that if this bill were to be passed to-morrow that there will be a stringency, an immediate stringency, and he does not know just exactly where it will end. The ordinary business man, he might come to point out some of the objections in the bill. I might do it, but I am not going into that, except in one or two cases, to elaborate a point made by our delegate. We do not pretend to say we can come here and take that bill and amend it or write a new one that will answer the purpose if you are undertaking to establish a system of banks here to do business every day in the year, to take over those rediscounts any day in the year and issue a billion or a half a billion or a billion and a half of money as may be necessary on bills rediscounted. We are not prepared (we have not the experience to warrant us, we have not even considered we can) to sit down and draw a bill that would be satisfactory to the business interests of this country, and I am asking you Senators this question: Can you tell the business men of this country with any degree of certainty that this bill will not produce these two results, violent contraction between the date of the passage of the bill and the time that you get this machinery in motion; and then violate expansion after you put this piece of machinery in motion and say to John Jones "you are raising pigs up there; send down your notes and we will rediscount them and get the money"?

Now, does it not appeal to you that there is danger in both directions? It does to me.

Senator POMERENE. Now, why?

Mr. WINSTON. Why? Because you expand. It will certainly lead to expansion of currency; and when it becomes fixed, from every-day use, then you can not call it back without causing that much more trouble.

Senator O'GORMAN. Have you not heard it stated here during the last day or two, that after this bill is in operation there will be a contraction because of the large amount taken from the member bank, and taken away from commercial activities?

Mr. WINSTON. When I say there will be an expansion I am going on the assumption that after you put it in operation and all your banks come in, as you hope they will do, you will have a very large expansion.

Now, on the other assumption, that the banks are not going to come in, if all of them stayed out, the things would go along just as they are to-day.

Senator BRISTOW. But we would not have any national bank currency; that would be retired.

Mr. WINSTON. Then, you would have a contraction.

Senator POMERENE. Unless there is something substituted for it.

Mr. WINSTON. Yes, unless there is something substituted for it.

Senator NELSON. That would not occur, except gradually.

Senator POMERENE. Yes, 5 per cent a year.

Mr. WINSTON. Now, gentlemen, I will not go through this bill and attempt to advise you, or suggest changes that you might make in it that might avoid all this trouble. It might get you in deeper.

Senator NELSON. You would fear contraction?

Mr. WINSTON. I speak for the business men. The first fear of the business men, their first feeling is that we are going to have contraction.

Senator NELSON. In the first instance?

Mr. WINSTON. In the first instance; that the country bankers and a good many of the city bankers—they are not going to say the minute this bill is passed "We are coming in" and surrender their charters. They are not going to do that the next month. They are going to think over it. In the meantime they are going to commence to get themselves into shape so that when the time comes if they have got to surrender their charter—the national bank has got a lot of circulation out. It has got to furnish the money to redeem its bonds, you understand, if they go out of the national banking business. They are going to prepare themselves. Now, they will all be in a state of doubt and there is no machinery, as I see it, provided in this bill whereby, if that contraction does commence, you can stop it. There is no chance to fill the void which is caused by it; and so the business men feel that you can not tell them that there will not be any contraction; but they are timid and they fear that the first effect of this bill is going to be violent contraction.

Senator POMERENE. Your thought is, then, that the business men or the bankers may bring on a panic, just as they did in 1907?

Mr. WINSTON. Do what?

Senator POMERENE. Bring on a panic as they did in 1907.

Mr. WINSTON. I will not go to the extent of saying that. I think the country is in pretty good shape; and the panic of 1907 was not a

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES.

PART 15

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman*.

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

credit panic. It was just simply a void, lack of a certain amount of currency, actual money, which was created at one end of the country and filled up at the other.

Senator HITCHCOCK. Mr. Winston, let me see if I have ideas of the contraction of credit which agree with yours. I agree with you that the first effect of the bill will be a violent contraction of credit.

Mr. WINSTON. Yes; that is the first——

Senator HITCHCOCK (interposing). Let me see if we agree on the method by which this contraction will occur. Senator Pomerene rather indicates it would be due to a purpose on the part of the banks to discredit the law. Now, gentlemen, is that having, say, 48 reserve cities——

Senator POMERENE (interposing). Let me suggest that I did not state a purpose. I was simply trying to call out what seemed to be in the mind of the witness that a certain state of facts would occur.

Senator HITCHCOCK. Well, I think his theory is that. Let us see if he is correct. We have about 48 reserve cities. In those cities there are 350 banks that hold the deposits of country banks. The amount they hold is, I think, something like $300,000,000 or $400,000,000, which they will be required to turn over to the reserve banks. In order to be enabled to turn over $300,000,000 or $400,-000,000 to the reserve banks they are under the necessity of calling their loans; and each of these 350 banks beginning to call loans to produce that cash would produce the violent contraction of credit that they fear. Is that a fair statement?

Mr. WINSTON. I have some figures here, Senator Hitchcock, and I think they are approximately correct. You know the national banks can not take advantage of this reduction in the reserve requirements, do you not, until after this bill goes into effect? Do you see what I mean?

Senator HITCHCOCK. Yes.

Mr. WINSTON. Therefore they must maintain their present 25 per cent reserve up to the time that they become a member of this new Federal reserve bank.

Senator NELSON. Until the new system is in force?

Mr. WINSTON. Yes, until the new system is in force. Now, the day that that new system is in force, these figures would show that there would be a shifting of reserves, by instructions from the country banks that deposited that money for their reserve, by telegraph or by letter—it might all be done in a day, if you are close enough to the reserve bank. The shifting of reserves would mean a loss of $409,-000,000.

Senator O'GORMAN. A loss?

Mr. WINSTON. Yes; of lending power. That is, the banks would have to get that much money—to go in and make this deposit with the reserve bank.

Senator POMERENE. From what premises do you draw that conclusion?

Mr. WINSTON. The figures are here. I will give them to you:

Reserves require now $433,000,000 of the country national banks; reserve city banks, $350,000,000; and central reserve banks—that is the reserves required under the new system—$382,000,000.

Senator HITCHCOCK. Mr. Winston——

Mr. WINSTON (interposing). The net loss of reserve city banks and central reserve banks would be $409,000,000.

Senator HITCHCOCK. I think we had better adjourn until to-morrow morning at half past 10; and then we will take up that particular question with you, before going on with the next witness.

Mr. WINSTON. I have only a few more things to say, Mr. Chairman.

Senator BRISTOW. But we have a great many questions that we would like to ask you; your statement has been exceedingly interesting.

Senator HITCHCOCK. The committee will adjourn until to-morrow at 10.30 o'clock.

(Whereupon, at 5.45 o'clock p. m., the committee adjourned until to-morrow (Thursday), September 25, 1913, at 10.30 a. m.)

THURSDAY, SEPTEMBER 25, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.40 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

Senator NELSON. Mr. Chairman, Mr. Winston, of Minneapolis, was on the stand yesterday when we adjourned.

The CHAIRMAN. Mr. Winston, we will hear you now.

Mr. WINSTON. All right, sir.

FURTHER STATEMENT OF FENDALL G. WINSTON, OF MINNEAPOLIS, MINN.

The CHAIRMAN. Were there any further questions desired to be asked by members of the committee of Mr. Winston?

Senator HITCHCOCK. Senator Bristow had some questions, did you not, Senator Bristow?

Senator BRISTOW. Yes. You were speaking, Mr. Winston, of the contraction of the currency as to credits, that would come at once from the bill going into effect; and you were presenting some figures when we adjourned yesterday.

Mr. WINSTON. Yes, sir.

Senator BRISTOW. And you estimated that there would be a contraction of something over $400,000,000, caused, as I understood, by the collections that would be forced from the banks in the cities, to transfer their reserves which they had been holding to this central bank.

Mr. WINSTON. Yes, sir.

Senator BRISTOW. Now, would there be a contraction due to the requirements of the country banks to subscribe to the stock of this bank?

Mr. WINSTON. That is the taking out of active business in one locality——

Senator BRISTOW. Yes; there is 10 per cent of their capital stock which is to be subscribed at once to the Federal reserve bank, and 5 per cent of their deposits.

Mr. WINSTON. Yes, sir; to the extent of their contribution to the capital stock of this corporation; necessarily that additional amount of money would have to be taken out of active business.

Senator BRISTOW. And the taking of 5 per cent of the deposits in the transfer would necessitate their depriving their customers of that much available funds for use, would it not—credit?

Mr. WINSTON. Well, I think I can find a table here—but that four hundred and odd million dollars that I referred to was the amount of money that national banks would have to be prepared on the day this corporation opened its doors to transfer from their vaults to the vaults of this proposed Federal reserve bank.

Now, I did not go into the question—those figures apply only to the transfer of reserves.

Senator BRISTOW. Well, that was my understanding.

Mr. WINSTON. Well, then, as this bill reads to-day, and as a business man understands it, there would be other necessary transfers, either at the time or thereafter, dependent somewhat, I think, from a reading of this bill—then those additional transfers would be absolutely required to be made—that is, not necessarily on the day the bank opened.

Senator BRISTOW. Oh, yes; I understand that.

Mr. WINSTON. But as soon thereafter as the purpose of this bill and the intention of this bill is to be carried into effect.

Senator BRISTOW. Of course, the subscription to the stock, part of it, has got to be paid in at once?

Mr. WINSTON. Well, all within 60 days, up to 10 per cent.

Senator BRISTOW. Yes. Now, the banks would have to get the money to make this subscription, to make the transfer?

Mr. WINSTON. Well, they would have to take it out of their vaults, or out of their deposits——

Senator BRISTOW (interposing). Out of the community?

Mr. WINSTON. Out of the community; yes, sir.

Senator BRISTOW. Well, pending this transition, there would be a contraction—a radical one—would there not?

Mr. WINSTON. Well, simply as my opinion, we should have to be governed, to some extent, by what we think the average prudent banker would do in the meantime, between the time of the passage of this bill and the time that he was compelled to decide whether he would stay out or go into it.

Senator NELSON. And that is a year?

Mr. WINSTON. That is a year. Now, there will be a process of readjustment, in my opinion, and preparation. Some men might make no preparation, but leave it all to the last minute. But prudent bankers would not desire, I think, to leave all this necessary preparation to be made within the period of 30 or 60 days. He would immediately commence to get his line of customers down, so that they could have as much time as possible to adjust their business to it. So, I think it would be but a little while after the passage of this bill before you would see signs of contraction, due to this necessary preparation that they would have to go through.

Senator BRISTOW. It has been suggested—the question has been asked of a number of members of a delegation here as to the availability of the use of the six-months paper—six months and longer

time, and it has been suggested that the tag-end of it, I will call it, after it has run a certain length of time, can be available; that the country bank, whose business requires it to take paper for longer than three months, can use the tag-end of the time of that paper to get money on it. As a practical proposition, what would the average customer of a country bank—how would he feel if his note was taken and rediscounted at a regional bank and he was notified that when it was due it had to be paid it had been sold? Do you think he would take very kindly to that, as a rule—the average customer of a country bank?

Mr. WINSTON. I am not, Senator Bristow, personally familiar with the characteristics of the average customer of a country bank, as I have never run one nor had anything to do with one. I have never been a director or stockholder in one.

But my judgment on that point is that the country, if you pass this bill with its 90-day limitation, would have to readjust itself—would be compelled to readjust itself. Some sections of the country where it is not the custom to take paper running much beyond 90 days would find no inconvenience. Other sections of the country where the custom of long standing has been to take this long time, for good and sufficient reasons and reasons which to them it would seem unwise to change, would hang tenaciously to their demand that the time of this limit of 90 days should be extended.

And if I may be permitted to say this, the business man's credit, however good he may be in the end, the standing that he has depends more largely upon the fact that when he gives a note, whether it be 6 months, whether it be 90 days, or whether it be 12 months, the people who take that paper can say, "Well, that is longer than we want to take; but we can depend on one thing, that man is going to be prepared to redeem that paper at that time."

Now, that is the reason that the country banks, as I understand it, have acceded to the demand of their customers in the Northwest and permitted themselves to fall into the habit of taking 6, 9, and 12 months paper, because they know that if they took that paper—paper issued in February—that 90 days afterwards that man never expected to pay it, and would not be able to pay it in 90 days.

Well, there is also the banker's side, who comes in with his paper for rediscount. He does not want to come under a subterfuge; presumably when he presents that bill, he carries with it at least his moral promise, or his moral obligation, that you may infer that he expects that paper to be paid; that there is no promise on his part that when this paper becomes due it shall be renewed.

Now, the banker would not like to get into the custom of having his paper, the character of his paper, questioned on that line, because he would perhaps admit, if he presented that paper at the doors of one of the Federal banks, that he did not expect the paper he was going to put up on his note would be redeemed at that time.

Then from the customer's standpoint, a man does not very often have to go back to his bank and say: "I never expected to pay that paper when it was due; why, you must not ask me to pay it now." Before the bank forms the opinion that that man's promise to pay may mean that it is going to be paid, and it may not. Now, there is a delicate point affecting the individual credit of every man. If he goes into an institution, as the custom has been in our community,

and makes his note out at a time when he expects to pay it, and promptly meets it, bankers all over the country that have been accustomed to handle that paper take it freely and without question, because their experience has proven that that man's note is going to be met at the day named on its face for redemption.

Senator BRISTOW. Well, now, Mr. Winston, are there not a large number of patrons of a bank who have running accounts, in a sense?

Mr. WINSTON. Yes, sir.

Senator BRISTOW. That is, a credit?

Mr. WINSTON. Yes, sir.

Senator BRISTOW. He will have a credit of so much?

Mr. WINSTON. Yes, sir.

Senator BRISTOW. Up to $100,000, we will say, as it is in a fair-sized town?

Mr. WINSTON. Yes, sir.

Senator BRISTOW. And he keeps an account there, of course?

Mr. WINSTON. Yes, sir.

Senator BRISTOW. And his deposits, at times, will run up to considerable, while he has got notes in the bank at the same time?

Mr. WINSTON. Oh, yes.

Senator BRISTOW. Then at certain seasons of the year, he reduces the indebtedness very materially?

Mr. WINSTON. Yes, sir.

Senator BRISTOW. But he does not reduce it all?

Mr. WINSTON. Sometimes not all; sometimes all.

Senator BRISTOW. Yes; but it depends upon the conditions of the merchant?

Mr. WINSTON. Well, depending further, somewhat, on the condition of the merchant and on the condition of his customers.

Senator BRISTOW. Well, that is true. But do the banks as a rule not regard an account of that kind as a very desirable account, provided the man is good and could pay it if he had to—it might be a sacrifice to his business to do it, but he could clean it up if necessary?

Mr. WINSTON. No. A well-run bank, Senator Bristow, is to a larger degree, probably, than you appreciate, dependent upon the good will of the customer. They do not like to put themselves in any position—they do not like to see a situation arise whereby they have got to ask this customer to pay this note when it is due absolutely, if it is an inconvenience to him, so long as he is safe. They like to keep themselves at all times where they can, without inconvenience to themselves, to renew the paper and where they can extend—where they need not be compelled to ask the customer to pay this indebtedness.

Now, along that line, the idea suggested is this: If the conditions are entirely different under the proposed bill, a well-run bank would naturally have to adjust its business so that almost any of that paper and all of that paper must be redeemed on the day named on its face. So you understand me?

Senator BRISTOW. Yes; I understand. But my impression was——

Mr. WINSTON (interposing). You understand that a bank can not go and treat all of its customers along this line: "John, when your note comes due, it is over in the next bank, and you will have to pay it."

Senator BRISTOW. Well, that was the point. If a bank did that, it would lose a great many very valuable customers.

Mr. WINSTON. The most valuable customers they have got; the customers that——

Senator BRISTOW (interposing). I have known banks——

Mr. WINSTON (continuing). The customers that at times have more money in the bank—sometimes as much as 200 or 300 per cent more than the face of the note that the bank holds against them.

Senator BRISTOW. And still they do not pay their notes, because they are using the money——

Mr. WINSTON (interposing). Business men are subject to sudden calls, almost arising from conditions beyond their control, for large sums of money—as I think the grain men illustrated here the other day. They have got to have in bank, ready to send out in currency to their agents at their elevators, large sums of money, sometimes far exceeding the amount of notes that the particular bank holds against their account.

Now, you will ask why. The farmers may have a bright day to-day. It may be a favorable time this week—the price of wheat may appear to be favorable to them and they may all, without notice, or consultation with the grain men, bring their wheat into these elevators, hundreds and thousands of bushels on the same day—millions of them.

They may, on the other hand, have rainy weather, or their market conditions might not be quite favorable to them, or they might want to do some plowing, and they might defer this thing to suit their convenience. But they do not ask the grain men: "Are you better prepared to pay me for this wheat if I haul it in next week? Can I do my plowing this week, and bring my wheat in next week? Will you be just as well prepared next week as you are now?" They do not ask any questions, they bring the stuff in when it suits them, and the grain man must be prepared to have his money in there to pay them cash for the wheat if he wants to purchase it.

Senator BRISTOW. I was talking with a gentleman the other day, and he told me that he had more money on deposit in his bank than his notes amounted to. I asked him why he did not take up his notes and save interest; and he said "In my business I might need that money, and I would have to borrow it over again, and I would rather have the money there and be able to check against it, and my notes still running."

Mr. WINSTON. Well, Senator Bristow, right along there let me say this: Of course in my line of work we have a little more control of it than a grain man; but it applies all through. One line of our work, and a very large part of our work is contracting.

Now say we do a couple of hundred thousand dollars—may be $300,000 or $400,000 or $500,000 worth of work a month. We have men out in the field who, on a certain definite day, which is well understood, are supposed to have their pay in cash. That is one thing.

But the people owing us that money, which should be on hand prior to that time, sometimes neglect to pay it; it does not get through their auditing department, perhaps, and perhaps they may be 10 days behind time.

Consequently, we have got to have on hand, subject to call on draft presented at our door to-day, often as much as $100,000 in a day.

Now, we may owe $25,000 of that to the bank; we may owe $50,000 of that to the bank. When I left home, if I remember correctly, the amount we owed our bank was $25,000. We had on deposit with our bank something like $180,000. Now, you may say, "Why do you not take up that $25,000 note?" Because to-morrow drafts are likely, in our line of business, to come in calling for $175,000 or $180,000, because of the fact the railroads that owe us this money, by reason of the slow process of getting their vouchers through the auditing department and the treasury department, have neglected to send us the money on our estimates.

Now, there are two lines of work, you understand; two different lines of work.

Then the wholesale merchants are the same way. Farmers get through with their thrashing—I mean their harvesting—and it is a fine time to haul grain in and turn it into cash and pay the country merchant. But a rain may have come yesterday and the ground softens up and the farmers go into the field and commence to do the fall plowing, and they continue it for a week, until the merchant's collections slump temporarily. The wholesale merchants' collections over the country also slump temporarily.

In the meantime he has got bills coming from the East in large volume for his goods, and he has got to be prepared to pay them before the discount day runs. Now, necessarily, he can not depend on his money coming in at all times to correspond exactly with what he sends out plus exactly what he borrows from the bank; he can not run close; he has got to have a large margin.

And that is the very reason I say that those are the most valuable customers that a bank has; they are borrowing their own money.

Senator BRISTOW. Then any legislation which we should enact that would break up or disturb this custom that has grown up for a generation between the customer and the banker would not be kindly received, would it?

Mr. WINSTON. Well, I am going to be perfectly frank with you, gentlemen; you want my opinion. This is a great, big country. We have done our business here under our present system for 45 years——

Senator BRISTOW. Forty nine.

Mr. WINSTON. I think it is 48 years this year, if I am correct—47 or 48 years. Custom makes law. People in New York have conformed their lives to a certain custom existing in their commercial and their financial and their banking system.

If this bill affected only New York, you could readily determine and forecast, with a fair degree of accuracy, what effect this bill would have on the people, all of whom have like customs and like habits, who have conformed themselves and adjusted their business to the same custom.

But we have got a great country. We do more business, probably, in a day in the transfer of the products of the farm and merchandise and the factories among ourselves in dollars and cents, probably worth more than France, England, and Germany combined.

During this month, the month of September, and the month of October and the month of November we have a section of country,

and a large one, where the business is not concentrated in large volume in those three months because of things over which they have control; but the Almighty has fixed up, in our northwestern country, three or four months when we must get increased volume of currency to do our business. That same period does attach to New York. The same period does not attach to the cotton States; in a measure it does; it overlaps somewhat; but they commence to get their product in earlier. So that the time of the peak of our load is not usually, when gauged by calendar months, that the peak of their load is.

Now, you are proposing to pass a bill here changing the customs and the habits and previous methods of all the people of this country to conform to a fixed standard. And, frankly, I think it is a very difficult question.

Senator BRISTOW. And the less it——

Mr. WINSTON (interposing). Somebody in this great country of ours, covering large parts of it, has got to readjust themselves.

Senator HITCHCOCK. At the present time your machinery is moving smoothly out there in the Northwest?

Mr. WINSTON. Never nicer, sir.

Senator HITCHCOCK. You have no difficulty in securing at your banks the accommodations that you need, have you?

Mr. WINSTON. No, sir; partly due to the Almighty, who has given us wonderful crops of all kinds.

Senator HITCHCOCK. And you secure it at a fair rate of interest, do you not?

Mr. WINSTON. Yes, sir.

Senator HITCHCOCK. And the banks are perfectly willing to extend the six months' credit that business men sometimes require?

Mr. WINSTON. Certainly they are.

Senator HITCHCOCK. Those six months' notes are paid automatically out of the proceeds of the operation, just as a three months' note is paid in the East as the result of a merchandising operation?

Mr. WINSTON. Yes, sir.

Senator HITCHCOCK. And that is also true, is it not of cattle paper?

Mr. WINSTON. Well, I am not so familiar with cattle paper, sir, because there is not very much cattle paper in our town.

Senator HITCHCOCK. But you are a western man, are you not, and know something generally about it?

Mr. WINSTON. Yes, sir. It must be so.

Senator HITCHCOCK. And you know that when a man buys cattle to feed during the season and gives a six-months note the fattening of his cattle and the sale of them at the proper season enables him to pay off his 6-months' paper, just as automatically as the business man in the East, or in the commercial centers, pays off his 90-day paper?

Mr. WINSTON. Exactly. Now, let me give you a point: Credit is a very delicate thing. A farmer who comes into a bank and says "I want to give you a 6-months' note" and gives it, and pays it; and gives it the next year and pays it; and gives it the next year again, and pays it, can rely on always being able to get his money when he asks for it; can he not? That is because he never made a note that he did not meet at maturity.

I will enlarge on that a little. I knew a citizen of Minneapolis, who is dead now, who had at one time on his personal indorsement,

if I am not mistaken, $17,000,000 of borrowed money. The record of that man was that he never failed to meet one of his notes on the due day. He could not have done it had he not had that record.

Senator NELSON. You mean he could not have borrowed the money?

Mr. WINSTON. Oh, no. He could not have borrowed $17,000,000 to save his life. It was loaned to him with the understanding that if he wanted to renew it or part of it, he could do so.

Senator SHAFROTH. Did he fail afterwards?

Mr. WINSTON. No, sir; he died.

Senator HOLLIS. You mean the only security was his personal name?

Mr. WINSTON. Only his personal name.

Senator HOLLIS. Without any indorsement or collateral?

Mr. WINSTON. I do not know whether he had any collateral, whether he had some person indorse his paper, or some trust company, or not.

Senator HOLLIS. It is astounding if he did not have some security.

Mr. WINSTON. He may have, but it was largely on his personal credit.

Senator HITCHCOCK. I want to ask a little about this system of discount that is established in this bill. From time immemorial the American banker has been afraid to rediscount notes which he secured from his customers. That is, the American banker has felt that if he loaned money to his customers and then rediscounted their notes with another institution he would not only hurt himself with his customers, but he would also impair his credit with other banks, and he has been averse, therefore, to attempting to expand his business in that way.

Now, I would like to ask you whether you think that the violent change in this country which is proposed in this bill for bringing about a common practice of rediscounting is likely to be taken up readily by these bankers raised in the other school?

Mr. WINSTON. Senator, let me say here I do not know and do not claim to know all about the science of banks—the scientific features of a structure of this kind. I mean banks that issue money on commercial paper—asset currency. I do not claim to be justified in giving an opinion on that subject to you that is worth anything, but let me say just this much, that if we are to have that scheme work out properly the country must conform itself strictly to the rule of having every piece of paper that is presented redeemed on its due day or going and substituting—making new loans so as to take up the old ones. You understand that.

Senator HITCHCOCK. Yes.

Mr. WINSTON. But the principle, the underlying principle, must be founded on the express condition that so far as this reserve bank is concerned, and its transactions, that paper must be taken up on its due day. That is as far as I know about the science. I think that will appeal to you as absolutely necessary. Now, if that is the case, then the country must necessarily, in order to make this thing thoroughly workable, adjust itself to those conditions.

Are we prepared to do it? That is the question.

Senator HITCHCOCK. I am wondering whether as a practical question—suppose you are president of a bank in Minneapolis. I understand you are vice president of one of the banks there.

Mr. WINSTON. Yes; I am vice president of one of the banks, but I am inactive.

Senator HITCHCOCK. But suppose you were the executive officer of a bank there and you had turned over 10 per cent of the capital and lost a large per cent of the funds you had heretofore been loaning: Whether you take your customers' paper and discount it at the reserve bank, so as to maintain the same volume of loans you have now, you would have less real capital to work on, less loanable funds to use. Would you make good what you lack by indorsing notes of your customers and turning them over to the reserve bank?

Mr. WINSTON. You want me to answer that question?

Senator HITCHCOCK. Yes.

Mr. WINSTON. We might use the right of discount freely when we were educated up to the custom of using it and the people of the country did not look upon it with suspicion. After this proposed bank had been in operation one year, two years, or three years and the people when they read the bank statements had gotten accustomed to seeing large rediscounts in the statement and passed it on and paid no further attention to it, the bank might be tempted by the profit, if there was any in it—I understand you do not propose to let them have a profit—to rediscount. I understand the purposes of this bill—if I really understood what the object of this bill was I could pass a better opinion. Let me ask you a question. Is it your understanding that the object or one of the prime purposes of this bill is to furnish such an increased volume of money as to force lower rates of discount? If that is the purpose, how are you going to force it? By standing ready to rediscount yourself at a lower rate than the prevailing bank rate? If that is the purpose of the bill it is expansion.

Senator NELSON. And it leads to inflation.

Mr. WINSTON. It is inflation.

Senator HITCHCOCK. The bill does not permit reserve banks—as I understood it originally did permit reserve banks—to enter into competition with the member banks, but there seems to have been a provision inserted in the House.

Mr. WINSTON. But read between the lines, Senator. It is not really so much what is expressed on the face of this bill, but read between the lines It means, I think, that the purpose of this bill is to force the rates of interest down through the operation of this bank, directly or indirectly.

Senator O'GORMAN. That is conceded to be the purpose of this bill; there is no mystery about that. It is not so much to force down as to regulate and control the interest rate.

Mr. WINSTON. That is all right. Political pressure will be brought to bear. You will ask the question, "What is the use of this bill unless you force down the rates of interest." Now, how do you arrive at it? How do you force it down? By expansion. You can not do it any other way.

Now, if this bill was simply for the purpose of regulation, if it was simply for the purpose of regulation and being prepared temporarily to expand for short periods during a crisis, it would come near meeting with the approval of the cautious business man. Now, I said, "the cautious business man." The question has been raised whether or not it will meet with the approval of the banks themselves. Let us see what the business man has to say about it. You have heard what

the banks have to say about it and, as I understand it, you have discarded the banks somewhat. You do not take what they have to say without a large grain of salt, on the theory that there is a divided interest between that of the business man and that of the bank.

Senator O'GORMAN. You think the inevitable result of putting the 12 reserve banks into competition with the individual member banks will be, in connection with the reduced rate of interest, an inflation of credit?

Mr. WINSTON. I think so. Now, then, let me stop right here and enumerate from start to finish my principal objections to this bank from the standpoint of the business man. In the first place, the taking, without their consent——

The CHAIRMAN. Speak a little louder, Mr. Winston; I can not hear what you say.

Mr. WINSTON. I say the compulsory provision in this bill to an old Democrat looks a little bit as if Congress was exercising the right to pass a law which in reality takes from the citizen, who owns, his property.

The CHAIRMAN. Speak a little louder. We can not hear what you say.

Mr. WINSTON. I say it takes his property without due process.

Senator NELSON. Without his consent?

The CHAIRMAN. Your next objection?

Mr. WINSTON. The next objection is that the National Government in doing that does not offer to property belonging to the national bank stockholder the same degree of protection under the Constitution that is offered to the stockholder in a bank or a trust company getting its charter from a State. If I remember rightly, a State can pass no law abridging the right of an obligation.

Senator NELSON. Impairing the obligation of a contract.

Mr. WINSTON. Yes; impairing the obligation of a contract. But Congress said our forefathers undoubtedly said, "We are above suspicion; we do not need to put into our Constitution just the same provision that Congress shall not do these things."

Senator O'GORMAN. Do you think Congress could pass a law impairing a contract?

Mr. WINSTON. That is a question for a lawyer.

Senator O'GORMAN. You expressed that objection.

Mr. WINSTON. But there is no express provision, Senator, that I know, under which this man can seek protection. It would have to be brought before the court.

Senator O'GORMAN. Let me say here there is no room for dispute with regard to this proposition. There is no suggestion of the impairment of a contract. There is no suggestion of the confiscation of private property, if this Congress adopts the provisions in this bill, with respect to national banks. In a word, it is entirely optional with the national banks whether they will avail themselves, whether the bank will avail itself, of the privileges offered by the national banking law, subject to the conditions which the Congress imposes. The Congress already in the existing law has imposed conditions which are respected by the national bank. This pending law would simply add to those conditions. So, for myself, I simply have to make the suggestion——

Mr. WINSTON. I am not prepared to do more than make a suggestion——

Senator O'GORMAN. Just one moment. For myself, I want to make a suggestion. It is quite idle for anybody, for any citizen, to come here and claim that there is an unconstitutional or an unlawful invasion of private rights. The question is entirely different and apart from any such thought. It goes to the general equity and justice and wisdom of the proposed policy. And it is by that test that this committee, so far as it may, will dispose of this proposed bill.

Mr. WINSTON. I supposed that you gentlemen were conforming yourselves strictly within the limits of the rights given you under the Constitution, but in the public mind I just tell you that is one of the things that disturb the minds of the business men. They do not like to see that very delicate question leading into the direction that this bill proposes to lead. They do not know whether it is constitutional or not, and they do not claim to know, but they have the impression that the rights of property are being infringed. Now, that disposes of that. I do not claim to have any knowledge, just an impression of what we had always believed were our rights.

The CHAIRMAN. What is your next objection to the bill?

Mr. WINSTON. Then the next objection is that they are voluntarily——

Senator NELSON. Let me say, in connection with that, Mr. Winston, here is a national bank that has a charter for 20 years. They got that franchise from the Federal Government. Half of that time has run, and it has still 10 years to run. Congress comes here and says, "Unless you will join this regional bank and become a member of it, you shall forfeit all the balance of your franchise." Is not that, in one sense, an invasion of the rights of the corporation and the rights of the stockholders in that corporation?

Senator SHAFROTH. No; because they take the franchise in the first instance with that understanding.

Senator NELSON. I do not question it in a technical sense, but, morally and ethically, here is a bank whose charter has 20 years to run. It is given by the Government to the national bank. It has run 10 years, and if it complies with the national-bank law it would have a right to run 10 years more without renewal. Now you step in and say to this bank whose franchise has 10 years to run, "You must come in here and join this regional bank. If you do not, you will forfeit the balance of your franchise; the right to do business for the next 10 years." Now, not technically but morally and ethically, is not that depriving that bank and the stockholders of the bank of the property right they now have?

Senator O'GORMAN. You and I and the whole committee believe there is no technical violation of the constitutional right. That thought you convey does go to the equitable consideration, the consideration of the equities of the people interested in that business.

Senator NELSON. That is what I understand is the idea Mr. Winston desires to convey.

The CHAIRMAN. There is no difference between you on that basis.

Mr. WINSTON. I did not want to mention that, but it is necessary in order to get to a point and tell you what we think would be prefer-

able from the business man's viewpoint, and to just enumerate these things, because they all have their bearing.

Now, then, the next provision is that when this money is contributed you fix the rate of profit without assuming any responsibliity for the loss.

The CHAIRMAN. And what is your next objection?

Mr. WINSTON. That is the next objection. Then, coming on down, we object to clause 15.

The CHAIRMAN. On what ground?

Mr. WINSTON. On the ground that just as surely as it goes in the bill the bank will be compelled, for political reasons, political exigency——

The CHAIRMAN. A little louder, Mr. Winston.

Mr. WINSTON. I say, just as surely as that provision in there permitting those banks to do business with private citizens and foreign citizens—just as sure as the sun rises the political exigencies will arise when a good portion of this business will be done with the private citizen. Is that the purpose of the bill?

The CHAIRMAN. What other objection have you, Mr. Winston?

Mr. WINSTON. That objection.

Senator HITCHCOCK. Just before you leave that clause, you think under this a bank could do an unlimited business in buying commercial paper and lending money, direct with individuals?

Mr. WINSTON. Yes, sir. You can do just as much or just as little as you see fit. Imagine a time when there is an election coming on. You have not found the best people; you have not found the people that would run to a private bank. They want to discount a draft with a carload of potatoes that might come into a market, as 60 carloads did in our market this spring, when they were only worth enough to be turned into starch. That kind of stuff will come to you in volume, because the banks won't take it, and the people will appeal to you; and you, in order to carry out what the people understand is the intention of this bill, have gone into this thing——

The CHAIRMAN. The chairman of the committee must remind the committee that Mr. Hulbert, of Chicago, gave way yesterday afternoon at 2.30; that Prof. Fisher, of Yale University, is here to-day; and unless you give them an opportunity to be heard to-day they won't be heard at all, so the will of the committee must be tempered in the light of that fact.

Mr. NELSON. There were two gentlemen who came in here and broke in on this delegation since they started, Mr. Chairman—one from St. Louis and another gentleman who represented the National Credit Men's Association. They would have been through had it not been for that.

The CHAIRMAN. I am simply reminding the committee of the schedule they have before them.

Mr. WINSTON. Now, Senator, just one last point.

We are afraid that we are attempting to do a thing that the country is not prepared for at this time in such a large way as might result very seriously by reason of the contraction during the next 18 months if this bill were to become a law and the expansion afterwards. I feel that the remedy—we believe in asset currency because of its flexibility, properly safeguarded and used only in a limited way for the

purpose of meeting a crisis. The business man knows to-day we have currency enough in this country to do all of his ordinary business. We have had it every year. It is sound. There is no question about its quality; they give it no concern. There is a crisis occasionally when the business man knows that more currency would be of value, and of large value to the country to carry it over a crisis. Now, to that extent, the business man approves of the injecting into our currency system all the money that can be reasonably expected to be required to take us over a crisis, and, at the end of a crisis, to prevent the danger of inflation, to tax it so that it comes back for redemption and remains as a reserve to which we may run again when we need it and not have it exhausted in this very expansion and leave us helpless when the next day of redemption comes. That is our position.

Senator NELSON. Your opinion, then, to sum it up, about this bill is that in the first instance it will lead to a contraction of the currency, and then ultimately, when it gets in full working order, it will lead to an inflation of the currency?

Mr. WINSTON. Yes, sir.

Senator NELSON. An unsafe inflation?

Mr. WINSTON. Under the present bill.

Senator NELSON. Yes; the bill as framed.

Mr. WINSTON. Yes.

Senator NELSON. And you further believe that this system of limiting the time on paper that can be discounted would disturb the business conditions in the Northwest as business is conducted to-day—the credit conditions?

Mr. WINSTON. I think it would disturb it.

Senator NELSON. Their credit condition is based upon 6 months, 9 months, and 12 months paper, and it would revolutionize that system if this law was passed in its present form?

Mr. WINSTON. Yes, sir. And, Senator, let me say right there, that knowing nothing about the science, the true science, of this so-called system, I am not prepared to say that you can comply with the best thought of the world in establishing that system if you do not make your notes of short time. Looking at it from that standpoint—taking out of consideration our interests, how much it would disturb us, how much inconvenience we are put to—I am not prepared to say but that this committee is right from a scientific standpoint if they hold those notes down to 60 days or 45 days.

Senator SHAFROTH. Or 26 days?

Mr. WINSTON. But I do say that the business men do not think that at this time there is a necessity for disturbing the existing conditions that would warrant us in passing this bill.

Senator NELSON. You no doubt have in mind—I call your attention to the fact that the plan of this bill ultimately is to retire our present national-bank note currency and have this asset currency of the regional banks entirely take its place.

Mr. WINSTON. Well, I do not see the object in retiring the national-bank currency. We can only do it at an expense of at least $7,000,000 a year of interest to the General Government. If you take up your existing bond issue, on which currency is now being issued, and expect to maintain your bonds at par, you must raise the interest on those bonds. I do not know whether Congress will think it is wise to do that or not. As a business proposition I do not

think it is worth it. I like the old national-bank note. It may be unscientific, but wherever I go in this country I can pass it at par and I have gotten used to it. We are furnishing it with a profit to the Government. I think, if I remember rightly, about 130 or 140 millions, somewhere in that neighborhood, have been turned into the Public Treasury as a tax on circulation. I am not quite sure, but I think that is somewhere near it; so that it has been issued at a profit to the Government. Now, why not continue it as a profitable investment on the part of the Government? The Government gets its half or 1½ per cent, as the case may be. You cancel it to-morrow and substitute paper money. The Government loses that revenue and has to put its hands in its pocket and take out approximately $7,000,000 a year to create an interest on the bonds you have substituted for that paper currency.

Now, I am not going into that. It is a question I believe Congress will decide not to do. I do not think it will do it.

The CHAIRMAN. Shall the committee now hear Mr. Hulbert?

Senator SHAFROTH. I would like to say, Mr. Chairman, I do not agree with many of the conclusions reached by the witness, and I would like very much to examine him to present the opposite view. But, knowing Prof. Fisher is here, I will not ask any further questions.

The CHAIRMAN. Senator Weeks, have you any questions?

Senator WEEKS. Yes; I would like to ask just one or two. We have on the statute books a law which provides—purposes to provide—for emergency currency which expires by limitation next summer. Now, there is going to be an interregnum between the expiring of that law and this bill, if it is passed, going into effect.

Mr. WINSTON. Yes.

Senator WEEKS. Have you thought anything about the desirability of covering that time by extending the present law?

Mr. WINSTON. I have not that bill before me, Senator, but I think in a brief way I can tell you, just in a few words, the large reason why that bill seems to be a desideratum. The onerous condition attached to that bill, if you want to make it a service, you must remove.

The CHAIRMAN. The question was, Do you think it ought to be extended?

Mr. WINSTON. With amendments. I think that bill—understand, gentlemen, I am giving you only a business man's impression, not from the standpoint of a scientific man who would have you change the whole system for scientific reasons, though it may be justified. I do not believe there is any necessity at this time to do what you are attempting to do here before you adjourn. I do believe, with the same protection, that the business man would feel absolutely safe from any possible danger if you would amend and approve of the Vreeland bill. There was a suggestion made here by one of my people that appealed to me to be an economical and safe method for use in an occasional emergency. That bill can be made, in my opinion, and I think in the opinion of every man that is with me to-day, so far as the business man is concerned, to satisfy his needs and to quiet any fear he may have at any time—not to-day, but next year.

Senator WEEKS. In a word, what change would you make in it if it were considered possible to expand it?

Mr. WINSTON. Just as an illustration, Senator—you will see the point—I am, we will say, the president of a bank in the city of Minneapolis, having a large line of responsible customers, who handle the articles of daily commerce sold in terminal markets at any time in large volume. That trade, good trade, responsible trade, absolutely safe, comes to me to get the money to move the crop in large volume and with larger demand than I can myself supply. Now, the Vreeland Act says you can avail yourself of this privilege and get this rediscount from the Comptroller of the Currency. "Yes." And accommodate this customer. "Yes; I can do it, and I would like to do it, but I am afraid to. I am a member of the association." If one bank wants to get that association together with a view to calling for this assistance, this necessary and proper assistance, what have I got to do? I have got to call my local associates together, composed of a number of banks, some of whom are competitors. Some other bank with a different line of trade that does not call on him at that particular time may have a little surplus money, and he does not need to do it. I have got to call them together and ask approval of my application to the Comptroller of the Currency for the use of that money. I have not only got to give him that approval, but, as I understand the bill, they have got to back me.

The CHAIRMAN. They have got to indorse it.

Mr. WINSTON. They have got to indorse it.

The CHAIRMAN. And you do not want to expose your position to them?

Mr. WINSTON. It might be perfectly safe, so far as he was personally concerned. They might have to do the same thing the next week.

The CHAIRMAN. But it would affect your credit with your depositors?

Mr. WINSTON. Just a minute. The next day somebody has heard they do not know the law; the people do not know this law, they do not know the purpose of it, and somebody whispers on the street, "Say, I hear that bank over there had a meeting with the other banks yesterday. They must be in trouble." That bill would not be used. That bill does not speak for the individual bank element. If that bill had been in vogue just as it is to-day in 1907, New York never would have shut her doors on currency. They would have gotten together. All of them would have said to Chicago, "Let's get together;" they would have said to St. Paul, "Let's get together," and they would have said to St. Louis, "Let's get together," and all of the associations, each one of them, would have gone in and taken out some of this money.

But the individual bank does not dare take the first step under this bill.

The CHAIRMAN. Senator Nelson, you say there was another witness you wanted to have submit a statement.

Senator NELSON. Mr. Winston, was there anything more you wanted to say?

Mr. WINSTON. Mr. Mosher here has a geographic outline of our district. Would you like to have him give it to you?

Senator NELSON. He has a statement here which I should like to have him present to the committee.

The CHAIRMAN. Will you proceed, Mr. Mosher?

STATEMENT OF CURTIS L. MOSHER, SECRETARY THE CITIZENS' LEAGUE OF MINNESOTA, MINNEAPOLIS, MINN.

Mr. MOSHER. Mr. Chairman, I will say in submitting this brief statement that it was prepared in behalf of this delegation at the request of Senator Reed and some of the other gentlemen who became interested in the geographic area in the Northwest which might come into a theoretical Federal reserve jurisdiction in case that were to be established in the Northwest.

Assuming first that a Federal reserve bank would be established in the Northwestern States under the bill before this committee, our organization has, for the purpose of making its investigation of this subject clearer and more definite, arbitrarily outlined an extent of territory, following up the requirements of the proposed law, for the purpose of ascertaining what area the district of such a Federal bank in the section of the United States referred to might have and what conditions would arise in the handling of the business of such an institution. In marking out upon the map a theoretical Northwestern Federal bank district we have regarded the existing currents of business in the territory included with respect to trade relations, the movement of crops, and financing.

Taking up first the provision of the bill requiring that each Federal bank shall have to begin business with a paid-in capital stock amounting to $5,000,000—this amount to represent one-fourth of a sum representing 20 per cent of the capital stock of the subscribing banks, plus one-fourth to be paid upon call within 60 days after such subscription is made—we find that it would be necessary to include within such a theoretical northwestern reserve district the following States, and draw upon them for the required amount of the capital stock of all the national banks within them, viz:

States.	National banks.	National-bank capital.	10 per cent subscription.
Minnesota	265	$25,356,000	$2,535,600
North Dakota	145	5,210,000	521,000
South Dakota	103	4,185,000	418,500
Montana	57	5,135,000	513,500
Total	570	39,886,000	3,988,600

It is apparent that these four States will not furnish a sufficient amount of banking capital (national banks alone considered) to provide even $4,000,000 of capital with which a Federal bank might begin business. Although the business and banking currents of all of the State of Iowa do not flow directly toward the great centers of the four States just mentioned, it would be necessary in order to provide capital to include all of that State, with 342 national banks, total national banking capital of $23,005,000 and contribution to the share capital of the Federal bank of $2,300,500, or at least such

a proportion of the area of that State as would give the Federal bank district the benefit of the banking capital in all the commercial centers of that State, plus a considerable share of the total capital of the numerous country national banks therein. The result would then be: States, 5; national bank capital, $62,891,000; Federal bank capital, $6,289,100.

We have not assumed that State banks and trust companies would contribute to this capital, upon the assumption that until it appears that this measure is sufficiently attractive to encourage them to voluntarily come into the system the burden would fall upon national banks. We regard it as probable that any advantage through the entry of State banks and trust companies to the system would be offset by the liquidation of national banks preferring State charter.

The Federal bank thus instituted with $6,289,100 of capital might call upon the banks for an equivalent amount, but only as representing the double liability of the banks upon their original advances to capital. The total of somewhat more than $6,000,000 would probably not be more than such an institution in the territory described would require.

These five States represent upon the map a broken wedge of territory with its principal length of about 1,300 miles lying east and west, its north and south boundary to the west of 300 miles extent, and its north and south boundary on the east of about 600 miles length.

The territory included has an area of 433,915 square miles, as follows: Minnesota, 83,365; North Dakota, 70,795; South Dakota, 77,650; Montana, 146,080; and Iowa, 56,025.

This is a territory equivalent in extent to all of France and the entire German Empire, in which are two of the best known banking systems of the Old World, together with the entire area of Denmark. There would still be left over about 2,500 square miles of territory or a corner of this great territory considerably larger than the State of Delaware.

This territory, the jurisdiction of but one Federal bank, would be equivalent in area to all of Italy, Spain, Belgium, the Netherlands, Bavaria, Saxony, and European Turkey, with the State of Connecticut thrown in for good measure.

It is equivalent to all of the British Empire, with its colonial possessions excepted, together with Norway and Sweden and Switzerland.

Or to make the comparison even more graphic, this extent of territory would include Massachusetts, Connecticut, New Hampshire, Rhode Island, New Jersey, Vermont, and Delaware, with all of Cuba, Porto Rico, and Hawaii; with the British Empire in addition to that, and all of France thrown in, and there would still remain a territory more than six times as large as the State of Rhode Island.

These figures are graphic, but may easily be confirmed by anyone who cares to sit down with a pencil and cast up a few figures, and serve to emphasize the fact that in a region which must all be included within a district to give but one Federal bank the capital prescribed by this bill there is an area equal to that of the countries of the Old World which are under discussion here because of their several typical systems of banking. In this territory the elements of population are quite as diverse as in the Old World, excepting alone that there is a

common language and similar business customs, for we have drawn upon every part of these Old World countries for the population which in little more than 50 years has developed the Northwest and given it its production and wealth. Interest rates vary greatly within this area, those of southern Minnesota being uniformly lower by at least 2 per cent than those of the far northern and much newer section of that State. Western North and South Dakota present higher rates than the territory adjacent to the great centers of Minneapolis and St. Paul, and as between these commercial centers and large districts of Montana, as well as of these States, there is wide variation of prevailing rates. How it might be possible for a Federal bank to prescribe discount rates applying uniformly to this territory with proper support and satisfaction to all the kinds of business within it it is very difficult to say. How such an institution might make unequal rates, adjusted to the peculiar conditions of local districts, and escape severe criticism for alleged discriminations, is equally difficult of determination.

A new phase of the problem, resulting directly from the great extent of the territory, is that involving the ability of a Federal bank board to pass quickly, with full knowledge of the conditions under which the paper was made and without such preliminaries as might be very burdensome to business and agriculture, upon the thousand kinds of paper based on cattle, grain, lumbering, mining, dairying, the movement of various crops, manufacturing, and the various kinds of wholesale and distributing business therein. Few men would care to undertake such a serious responsibility, unless they felt that it would be permitted to take the word of a member bank for the character of the paper submitted with its indorsement for rediscount, and under some conditions such a custom might prove very dangerous.

Yet, upon the other hand, the banking and commercial currents of practically all of this great territory flow naturally to the important commercial centers in Minnesota. But 20 per cent of Montana's wheat goes to the north Pacific ports and markets. A very large share of Montana's stock shipments come eastward, either to the great market in the Twin Cities, or through them by fast trains to Chicago. The northern portion of Iowa is directly tributary to the commercial centers of Minnesota. To institute in this territory a Federal bank having a less capital would, in the opinion of the best authority, be to establish an institution, the ability of which to handle such problems as that of handling the great fall crop movement might be very uncertain. To subtract from this territoty, as well, any large share of the area indicated would be to endeavor by arbitrary rule to change the channels of trade which have established themselves through natural processes. This would be a very doubtful economic experiment.

The one solution which readily suggests itself, would be that such Federal bank establish numerous branches to represent it in the various areas of like agricultural and industrial enterprises and requirements. To this suggestion it is but fair to make the answer that all of this territory, while settled and developed, is yet but sparsely settled and but partially developed. Minnesota, with nearly 84,000 square miles, has but 2,075,708 people. Montana with 146,000 square miles has but 376,053 people.

These States lack density of population, such as older States have, and their business, while very great in terms of the burden which falls upon banks and financial institutions to maintain their prosperity, would make but an indifferent showing against Eastern States, where the total volume of business is prorated against the square miles of territory. Only about 35 per cent of Minnesota's area is in farms, yet it is a great agricultural State, with comparatively small proportion of waste or useless land.

The question naturally suggests itself whether a Federal bank, instituted under this bill, having an expensive headquarters force, doing the tremendous amount of business thrown to it by the exchange and collection provisions of section 17, and compelled to maintain numerous branch banks to serve its territory, could operate profitably and cover the cost of the forced extension of branches into regions of comparatively thin settlement, such as the cattle country of northwestern North Dakota and northeastern Montana. This query might have especial force if member banks, even after advance of their proportionate share capital, were not educated, except after a period of years, to freely rediscount. The profits of such a bank would lie in the latter and not the former class of its business. It seems improbable from all the first-hand evidence that can be obtained, that northwestern banks would have great occasion to rediscount, or would be readily educated to abandon a practice which has been visited with opprobrium throughout the whole experience of present bank officers and managers. It is the opinion of many observers and students of the peculiarly northwestern problems arising in this connection that banks located at country points would still prefer to make their loans, or their rediscounts if any, with the correspondents with whom they have long been associated in mutually satisfactory business relations. Settled business customs change very slowly.

STATEMENT OF E. D. HULBERT, VICE PRESIDENT MERCHANTS' LOAN & TRUST CO., CHICAGO, ILL.

The CHAIRMAN. I wish you would state to the stenographer the position you hold, Mr. Hulbert.

Mr. HULBERT. I am vice president of the Merchants' Loan & Trust Co., of Chicago.

The CHAIRMAN. I believe it would be well for you to make your statement first, if the committee will be agreeable to that, and then we can cross-question you afterwards. Would you like to follow that plan?

Mr. HULBERT. I should prefer to do that, with your permission; yes.

The CHAIRMAN. What are the resources of that bank?

Mr. HULBERT. About $65,000,000.

The CHAIRMAN. What is the capital?

Mr. HULBERT. $3,000,000, and $7,000,000 surplus.

The CHAIRMAN. If you will proceed now, Mr. Hulbert, I shall not interrupt you further.

Mr. HULBERT. The success or failure of any plan for currency reform will depend largely on the action of the State banks, and by State banks I mean all incorporated banks except national banks

and mutual savings banks. The national banks alone, when deposits of State banks with national banks are eliminated, represent little more than one-third of the total banking power of the country. You can not satisfactorily reform the banking system of a country by reforming one-third of it, especially if that third objects to being reformed your way. Therefore, I think it is fair to say that in the discussion so far held regarding the pending bill, the State banks have not received sufficient consideration, as if the new plan is not made sufficiently attractive to the State banks so that a considerable number will voluntarily go into it, it will hardly be a success.

Probably the most difficult thing to adjust satisfactorily is the question of reserves, and I wish to submit that while the central reserve cities have nothing to complain of in this respect, the pending bill is unnecessarily harsh on both the reserve city banks and country banks.

It should go without saying that under any plan such as is under consideration less cash reserve will be required than under our present system, where each bank stands largely on its own bottom and is limited to a considerable extent to its own cash resources in a time of trouble.

While the pending bill apparently reduces the required reserves of the reserve city banks and the country banks, it in reality increases them. The reserve city bank at present, while required to carry 25 per cent reserve, carries only 12½ per cent in idle money, the balance being made up of credits with reserve correspondents on which the bank receives interest, so that if the reserve city banks are required to carry 18 per cent, as provided in the bill, it would require them to carry 5½ per cent more idle money than under the present system. The same thing applies to the country banks, on which the provisions of this bill perhaps bear more harshly than on any of the others.

It is a well-known fact that State banks and trust companies run with a much smaller percentage of reserve than the national banks. This is partly due to the fact that many such banks carry insufficient reserves, and partly to the fact that on the whole the deposits of State banks and trust companies are of a more stable character, having a larger proportion of time deposits and a far smaller proportion of deposits of other banks. It seems to me obvious that in any plan which is designed to unite all of these different classes of banks so that, to a considerable extent, their united resources will be available for all, it will be entirely safe and proper to largely reduce the reserve requirements of the national banks to a figure which will still compel the State banks joining the association to largely increase their present cash holdings. If this should be done, the result would be that the total cash reserves of the combined banks would be much larger than it is at present.

I would say here, Mr. Chairman, that the last report of the comptroller shows that the State banks reported have less than 5 per cent of total cash on hand, while the national banks have about 12.

One reason why our present reserve system has proven to be more or less of a failure is because only about one-third of our bank deposits have been subject to these reserve laws, so that in a time of stress the burden falls too heavily on the national banks. I think a simple solution of this problem would be to change the present bill so as to

require a reserve of only 5 per cent against time deposits, including time certificates, providing, however, that all time deposits shall be counted as demand for reserve purposes when they are within 30 days of maturity. I am sure a provision of this kind would remove all objections to the reserve provisions of the bill on the part of State banks and trust companies.

Aside from this, I feel chiefly concerned about the language of the bill, which is in many respects ambiguous as regards State banks. I will call attention first to section 4, page 4, line 15. This section seems to provide that only national banks may take part in the organization of the reserve bank. I can not imagine any reason why that is there, and I think it must be an inadvertence, because the bill provides that State banks can join just as early as the national banks. Why should there be a provision here that only national banks can sign the articles of association? I want to suggest an amendment here, which is to change that word to "member" banks.

Senator SHAFROTH. Strike out the word "national" and insert the word "member." That is a good suggestion.

Senator BRISTOW. How do you know who are the member banks?

Mr. HULBERT. Those who become members.

Senator BRISTOW. But there has been no organization. How would you get at the member bank before the organization is perfected?

Mr. HULBERT. I think the bill provides that the organization committee immediately after the passage of the act can take subscriptions for this stock——

Senator BRISTOW. I note section 4, and then in the same section farther on—line 11, page 6—it says:

> It shall be the duty of the chairman of the board of directors of the Federal reserve bank of the district in which each such bank is situated to classify the member banks of the said district.

Mr. HULBERT. That is, after the organization.

Senator BRISTOW. That is before the directors are elected.

Mr. HULBERT. You do not think it means, Senator Bristow, that any national bank can sign this organization certificate, whether it is a member or not?

Senator BRISTOW. I think it does mean that; yes.

Mr. HULBERT. That any national bank can sign it?

Senator BRISTOW. Within the district that is laid out by this organization——

Mr. HULBERT. Whether they intend to come in or not?

Senator NELSON. If you will note the first two lines of section 4 you will see how easily it can be amended. If you put in after the words "national banks" the words "State banks and trust companies," so it will read, "the national banks, State banks, and trust companies in each Federal reserve district uniting"—the word "uniting" covers it there—"uniting to form the Federal reserve bank therein." By putting in that you would get over it.

Senator SHAFROTH. If you just strike out the word "national," another clause makes the trust company appertinent under this act.

Senator HITCHCOCK. I think the word "eligible" would be better.

The CHAIRMAN. "Eligible banks" would cover it.

Senator SHAFROTH. Yes; that would cover it.

Senator NELSON. It seems to me he is quite right in saying that State banks want to join that to participate in the organization.

Mr. HULBERT. There is another suggestion I wanted to make in regard to this section that perhaps is not pertinent or very important. In regard to the Federal reserve agent I am wondering why there are not more safeguards thrown around that individual. Just as an individual he has charge of all the collateral that is turned in and of the redemption funds, which, of course, would be a vast sum of money. The bill simply states that this man, as an individual, has custody of all this property. I simply suggest the question whether there should be any safeguards about that.

Senator NELSON. Whether he should not be a bonded officer?

The CHAIRMAN. He should, by all means.

Mr. HULBERT. Usually those things are put in the bill; are they not?

Senator NELSON. Yes.

Mr. HULBERT. Section 10 provides that from and after the passage of this act any bank or banking association or trust company, properly incorporated, may become a stockholder in the Federal reserve bank.

Thereafter in this section and others such stockholding State banks are referred to as "banks or banking associations," and in some cases, "banking association or trust company," giving rise to the question as to whether are not the privileges of the bill apply in all cases to all these stockholding banks. Now, I won't go ahead with this because Mr. Jones suggested some amendment yesterday which I think the committee approved of covering this point. I have not in my notes now what it was——

Senator SHAFROTH. What Mr. Jones proposed was to include trust companies.

Mr. HULBERT. Mr. Jones, you suggested adding to that the words, "except where national banks"——

Mr. JONES. "Except where national banks are especially referred to."

Mr. HULBERT. That seems to be a good suggestion.

Senator NELSON. We shall probably have to rewrite that section to cover it.

Mr. HULBERT. Section 15, page 27—that seems to be the storm center. As I understand it, the first paragraph of section 15 intends to give the reserve banks power, when they see fit, to go into the open market in competition with the member banks in order to reduce the rate, or for any other purpose. That, of course, is very unsatisfactory, for a banker to feel that he is going to put his money into the stock of an institution that is coming into direct competition with him—that his own money is going to be used in direct competition. I see you have been thrashing that out with everybody. I only want to say that it seems to me an unfair provision. A thing of that sort would, of course, have some weight with banks that can come in or stay out as they see fit.

Senator O'GORMAN. It is generally recognized that the reserve board should have the power, through the regional reserve bank, to fix the rate of interest.

Mr. HULBERT. To fix the rate of interest for the reserve bank?

Senator O'GORMAN. Yes; and that would fix the rate for all membership banks, practically, unless it is fixed there.

Mr. HULBERT. It should; yes.

Senator O'GORMAN. Is it any more objectionable—personally I do not see that it is—to confer substantially the same right upon the same board to regulate the exchange rate?

Mr. HULBERT. I am not talking about the exchange rate, Senator——

Senator O'GORMAN (interposing). It is said that the reason for the first paragraph of section 15 is simply to confer that effectual power upon a reserve board to regulate the exchange rate.

Mr. HULBERT. Do you mean the interest rate or the exchange rate?

Senator O'GORMAN. The exchange rate. With respect to reserve banks the reserve board can fix the interest, and under this provision the power is conferred upon the reserve board by those means to control the exchange rate.

Mr. HULBERT. There would be no objection to that, Senator, but they go further. I am told it is intended, and apparently it reads that way, to confer upon the reserve bank and the reserve board the power to go into the market and loan money, and thereby reduce the current rates of discount. That is what we are objecting to.

Senator O'GORMAN. Is that any more objectionable, even from the banker's standpoint, than the first power conferred upon the reserve board to control the interest rate through the regional reserve banks?

Mr. HULBERT. We have not the slightest objection to that; not the slightest.

Senator O'GORMAN. Where is the objection?

Mr. HULBERT. That is the principal thing that reserve board is good for—to fix the interest rates for the different sections of the country.

Senator NELSON. But here, Senator, this is something more. It allows them to go in here and traffic in a class of commercial paper, which means that much business taken away from the other banks.

Senator O'GORMAN. But it is said that the trafficking will only be indulged in under the rules and regulations provided in this paragraph, to the extent and for the purpose of regulating the rate of discount and the rate of exchange. And after that is accomplished, I assume that it is the purpose of the reserve board to withdraw from any further active dealings in this class of paper.

The CHAIRMAN. These banks would have no object in making money at the expense of member banks. Their purpose is not to be money-making banks beyond interest on the stock. Their purpose is to stabilize commerce, and in order to enable them to do that it was thought judicious to give them this power, not believing that a bank organized for a public-utility bank would indulge in a competition that would be in any degree harmful.

Senator NELSON. To illustrate, the big millers at Minneapolis can ship a large consignment to Liverpool and draw a bill of exchange against that and get it discounted by the local banks so as to get the use of the money in transit. That is a business that pertains to the banks at Minneapolis. The regional bank under this provision could absorb that business.

The CHAIRMAN. It would have the power to do it, but would not, because these are not money-making banks. In case the Minneap-

olis millers could not get accommodation from home, for any reason which might arise, it would leave the opportunity open for that.

Senator NELSON. It leaves it to them. The only brake on it is this big reserve board of seven. If they permit it there is no limitation.

The CHAIRMAN. The policy is to serve commerce and not to make money at the expense of the bankers.

Senator O'GORMAN. Can you not conceive the situation, Senator, where there might be danger in the reserve bank possessing the power to use its funds for those purposes? As you will observe in the second line of section 15, the Federal reserve board here in Washington will fix rules and regulations under which this power will be exercised by the regional banks. It all gets back really to the fundamental proposition, whether we are going to repose confidence in the judgment and capacity and diligence and experience, perhaps, of the membership of the reserve board.

Senator NELSON. But it allows them, Senator, under this law, to enter into a class of business, that but for this, would appertain to the member banks.

Senator O'GORMAN. Undoubtedly, and they would only be allowed to indulge in it to the extent permitted by the Federal reserve board.

Senator NELSON. Yes; it would be wholly at their mercy.

The CHAIRMAN. But the policy of these banks is not to make money.

Senator NELSON. We do not know what the policy is going to be.

The CHAIRMAN. That is the policy of the bill.

Senator NELSON. Not exactly; it contemplates that after there is a revenue over and above 5 per cent.

Senator HITCHCOCK. I think this gives emphasis to the objection I have stated heretofore, that the power of the Federal reserve board has another addition here.

Senator NELSON. Certainly.

Senator HITCHCOCK. It not only has the power, evidently, to fix the rate of discount at which reserve banks shall pay for currency advanced and to fix the rate of interest which reserve banks shall pay on United States deposits, but it is proposed to give to the Federal reserve board the power to go into the market and reduce the rate of interest for the purpose of inflating business. And such power, I think, vested entirely in the hands of seven men appointed by a President of the United States who might at the moment be in a political contest for reelection would be the power to control for the moment the business of the United States.

Senator NELSON. That is the way it looks to me.

Senator HITCHCOCK. It would be a power, no matter how it might be used, which could be used for making the condition of business so active and so inflated as to serve the purpose of the President who was in the midst of a political campaign and who might want to control business for that reason.

Senator WEEKS. The two vital reasons for the downfall of the First and Second United States Banks were politics and the fact that those banks were in competition with banks throughout the country, and the sentiment that was created by the banks throughout the country against them on that account.

Senator O'GORMAN. They were private banks.

Senator NELSON. They were banks of issue; State banks.

Senator WEEKS. This provision in this bill proposes to reenact that very possibility of introducing political influence into this measure and bringing these reserve banks, which ought not to be money-making institutions, directly into competition with every bank in the country.

The CHAIRMAN. That observation applies with just as much force to the Aldrich bill, which you approved, I think, Senator.

Senator WEEKS. You and I will discuss that at some other time. I think it has nothing to do with this, however.

The CHAIRMAN. Perhaps not. I merely made that observation for the purpose of the record.

Senator WEEKS. I will undertake at a proper time to demonstrate to you that the Aldrich plan and the Monetary Commission plan, in that respect, is infinitely superior.

Senator NELSON. I think, Mr. Chairman, we are enlightening the witness instead of having the witness enlighten us.

Mr. HULBERT. Mr. Chairman, the witness is here more to get information than to give information.

Well, I am sincere in what I say. What I am really trying to get at is what this bill means to the bank, because we want to understand this, and we do not understand it very well now.

Before we leave this particular section, I want to submit that it is objectionable to the banks that this power should exist, using the money that the banks put into stock to go into that competition with the banks. They should not have that power, and it seems probable that if that power is granted to them there is going to be pressure brought to bear to use it. So far as my own experience goes, and I have been in the banking business all my life, I have never seen a time when the banks could control interest rates in a way that would justify any such action as is proposed in this section.

The CHAIRMAN. Might it not make available foreign funds to American uses?

Mr. HULBERT. Oh, I am not objecting to the purchasing of bills of exchange at all; but this section is not clear and I do not know what it means. I have talked with some of the men who wrote it, and they say that it means that the Federal reserve bank has the power to do that—it can go on the market and buy paper and go into direct competition with the banks. That is what we refer to.

Senator WEEKS. How did you discover who wrote that bill?

Mr. HULBERT. Well, I talked with some of the men who wrote this section or said that they wrote it.

Senator WEEKS. I do not know who wrote it.

Mr. HULBERT. It is very fortunate I was not heard by the committee yesterday, because I have got a good deal of information since I have been here. I do not believe it ought to be in the bill, and I do not believe there is any necessity for it.

Senator HOLLIS. In other words, you think that whatever rights may be necessary to our banking conditions in this country the reform need not go to the extent indicated in this section 15?

Mr. HULBERT. Yes, sir.

Senator HOLLIS. You observe, Mr. Hulbert, that this does not permit the Federal reserve bank to go into the market and loan money.

Mr. HULBERT. My objection, Senator Hollis, is not the loaning of money, but the buying of commercial paper. However, there is no difference between the two. It is merely a distinction without a difference.

Senator HOLLIS. Just amplify that, will you?

Mr. HULBERT. Yes; I can not go to the reserve bank and discount a piece of paper of my own. I can not go in and make a loan, but I can give you my note, and you can go into the Federal reserve bank and indorse and sell it. They have the right to purchase it of you.

Senator HOLLIS. Under this clause?

Mr. HULBERT. Yes; under this clause.

Now, coming down to section 15, beginning with line 5 on page 29. Taken in connection with section 4, it would appear that the Federal reserve bank may carry on nearly all kinds of banking business.

No Federal reserve bank shall receive or credit deposits except from the Government of the United States, its own member banks, and, to the extent permitted by this act, from other Federal reserve banks.

It is suggested that this section will be more satisfactory if the paragraph, beginning with line 8, is changed to read as follows:

All domestic transactions of the Federal reserve banks shall be confined to the Government and the Federal reserve banks except as otherwise specifically provided in this bill.

It seems to me that would make the meaning a little clearer and would not leave it quite so indefinite. The reserve bank can do any kind of banking business except the two or three things which are prohibited.

Senator NELSON. In other words, you believe the enumeration of the powers there would permit everything else to come in?

Mr. HULBERT. It seems to me so. I do not believe that was intended, and I think it should be corrected in the way I have suggested.

Section 17, beginning with line 13 on page 33. That, of course, is one of the most revolutionary things in the bill. I heard Senator Hitchcock ask yesterday of Mr. Jones if he thought that free banking would be destroyed in this country by this bill. Mr. Jones said that he thought not. I can hardly agree with him if this clause is left in the bill.

Senator O'GORMAN. You are speaking of the clause on line 13?

Mr. HULBERT. Yes; line 13, page 33. If you give the members of this association, the members of the reserve bank, the rights and the privilege of transferring funds to all parts of this country without any expense to themselves, and the customers of those banks are given the right to use their checks, so that they are par everywhere in the country, I do not see how any bank outside of the association can possibly compete with them. I can not understand why the framers of the bill thought it necessary to put that in. It seems to me it is a violation of all economic laws. You can not deposit gold in San Francisco and draw it in New York without somebody paying the freight. This bill, however, forces the reserve bank to do that. That, of course, would be something which has never been tried before, and which is not done in any country in the world. I do not know what its effect would be; I do not imagine anybody knows.

Senator HITCHCOCK. Under this bill could you deposit anything else but gold at San Francisco?

Mr. HULBERT. Certainly; you can deposit a check on Seattle and have the funds transferred to New York free of expense. The bill provides you can transfer it anywhere you please.

Senator HITCHCOCK. Then you could deposit the check in Seattle and draw——

Mr. HULBERT (interposing). The gold in New York.

Senator HITCHCOCK. Yes.

Mr. HULBERT. Without any expense. You can compel, perhaps, the reserve banks to do that without a charge, but there is no way under Heaven they can do it without an expense. You can not transfer property from one place to another without some expense.

Senator HITCHCOCK. Those transfers are made by the Bank of France and in Germany by the Reichsbank. Can you tell what their charge for that service is?

Mr. HULBERT. No; I have no idea. I am not familiar with that.

Senator HITCHCOCK. They do make a small charge. I do not recall what it is.

Senator NELSON. My impression is that they make a charge, but I do not recall the amount.

Mr. HULBERT. The reserve bank can make no charge for doing that under this bill.

Senator HITCHCOCK. It would be easy to fix a charge for a country as small as France or Germany. How would it do to fix a charge in this bill?

Mr. HULBERT. In a country as large as this I would not do it. I see no object in doing it.

Senator HITCHCOCK. You would not do it?

Mr. HULBERT. I would not permit this to be done. I can not understand why the draft of a member bank on the reserve association at San Francisco, if there is one there, should be taken at par by the reserve bank in New York. The bank in San Francisco has no funds in New York to pay it. How is the bank in New York to be reimbursed? But the bill says the New York bank has to do it. That would be undoubtedly a burden on the bank in New York.

Senator HITCHCOCK. Should there not be a method of transferring the credit?

Mr. HULBERT. Without any expense?

Senator HITCHCOCK. With a minimum of expense, yes.

Mr. HULBERT. The expense is now very small.

Senator HOLLIS. What do you understand lines 20, 21, and 22 to mean? [Reading]:

> Nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Mr. HULBERT. I do not think it means much of anything, because under this bill there will be no expense.

Senator HOLLIS. That language says they may charge for doing it. If they have to transport gold they will charge a reasonable sum for doing it.

Mr. HULBERT. I think not. You are talking of member banks. [Reading:]

> Nothing herein contained to be construed as prohibiting member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Senator HOLLIS. The banks will be the ones that will do it. The depositor of a Federal bank will ask to have the transfer made. Now the banks themselves do it and you make a reasonable charge?

Mr. HULBERT. Not the member bank but the reserve bank is required to do it. The lines you refer to apply only to the member bank. It says the member bank may make a charge to cover the expense, but the bill says there shall be no expense to the member bank.

Senator HOLLIS. Would that be taken care of if these words were inserted: "Federal reserve banks," as well as member banks?

Mr. HULBERT. I think that would help.

Senator HOLLIS. Of course, that is a mere detail.

Mr. HULBERT. I think that will help a great deal.

Senator HOLLIS. So that it will read:

nothing herein contained to be construed as prohibiting Federal reserve banks and member banks from making reasonable charges to cover actual expenses incurred in collecting and remitting funds for their patrons.

Would that cover your objection?

Mr. HULBERT. I think that would.

Senator HITCHCOCK. Mr. Hulbert, haven't you gone too far in saying that the charge for the transfer for such credit or the collection of checks is almost nothing?

Mr. HULBERT. It is very small.

Senator HITCHCOCK. Suppose I deposit in New York a check for $625, which is our monthly stipend. What do you think the New York bank would do—give me credit for the full amount?

Mr. HULBERT. You refer to a draft on Chicago?

Senator HITCHCOCK. No; it is a Treasury draft on Washington.

Mr. HULBERT. I do not suppose they would charge you much for it. I am not familiar with the practice of New York banks.

Senator HITCHCOCK. I have not had any experience with New York banks, but the Senator from New York (Senator O'Gorman) tells me that they charge about 70 cents.

Mr. HULBERT. I think they ought not to charge more than 62 cents, anyway.

Senator HITCHCOCK. Is not that altogether at the present time dependent upon the current regulations of the particular banking center?

Mr. HULBERT. It is dependent very largely on express rates. That is what really regulates those things.

Senator HITCHCOCK. I think you are mistaken there. If I deposit a check on my Omaha bank they give me credit at par. If I deposit that same check in New York they charge me for collection.

Mr. HULBERT. The Omaha bank is pretty liberal then.

Senator HITCHCOCK. And I say, does it not depend upon the rule of the particular banking center?

Senator NELSON. That is a rule of the clearing house of New York.

Mr. HULBERT. The rule is limited by the express charges. They can not go beyond that. It seems to me that there is no serious injustice done when you are charged for the express charges between Washington and Omaha on your check, whatever that may be. But if the banks choose to get together and say they will make a charge for it, the limit of charge they can make is the express rate. Other-

wise you could express the currency down here. There is a limit to it.

Senator O'GORMAN. Do you think it costs them 62 cents in express charges to send a small paper from Washington to New York?

Mr. HULBERT. They send currency. I presume it would not cost that much.

Senator O'GORMAN. What is the rule in your clearing house association with respect to the charge on out-of-town checks?

Mr. HULBERT. We make a charge.

Senator O'GORMAN. What is the charge?

Mr. HULBERT. It varies for different localities and different cities; different cities have different rates. It runs all the way from one-tenth of 1 per cent up to $1.50 a thousand. A dollar and a half would be about the limit between two given points.

Senator O'GORMAN. What determines the difference in rates?

Mr. HULBERT. The distance from Chicago to the point at which you are trying to collect. That is the difference in express rates.

Senator NELSON. Does not a great deal depend upon the banks upon which the checks are drawn and the exchange between the banks. Sometimes it is an advantage to you for me to deposit a check on New York when you are short of funds in New York and when you can use that check instead of sending the money there.

Mr. HULBERT. That is true.

Senator O'GORMAN. In a case like that would you give your customers the benefit of it?

Mr. HULBERT. It depends upon the size of the transaction a good deal.

Senator HITCHCOCK. Have you any estimate of the amount of checks and drafts that are constantly in transit—the average volume?

Mr. HULBERT. You mean in the country at large?

Senator HITCHCOCK. Yes.

Mr. HULBERT. It would not be a difficult matter to dig that out. I do not have it now. I have never tried to get at it. It is very large, of course. Possibly it would be a little indication of what this would be. In our bank, with deposits of $55,000,000, there is about on an average $2,000,000 in transit, and with active national banks, which would have a greater proportion of active accounts than we have, I should think the proportion would be a great deal larger than that.

Senator HITCHCOCK. Yours is about 4 per cent.

Mr. HULBERT. Just about that. I should say that with an active commercial bank it would be much larger than that. What would you say, Mr. Mitchell?

Mr. MITCHELL. I should think so.

Senator NELSON. The banks, under the clearing-house system of New York, make a profit out of that, do they not?

Mr. HULBERT. Undoubtedly.

Senator HITCHCOCK. This clause you refer to would affect the country bank to a considerable extent, would it not?

Mr. HULBERT. Yes, sir.

Senator HITCHCOCK. They now receive a collection charge on checks.

Mr. HULBERT. Yes, sir.

Senator HITCHCOCK. Have you any idea what that amounts to to the average country bank?

Mr. HULBERT. It would not sound big in figures, but it is a pretty big item to the bank. The small country bank will make out of that something in the neighborhood of $1,000 or $1,200 per year. I am talking offhand now. I think a bank with $25,000 capital and $100,000 deposits would find that a pretty big item. It would pay the cashier's salary pretty nearly and they would feel pretty badly to have that taken away from them.

Senator HITCHCOCK. It would be 5 per cent of its capital.

Mr. HULBERT. Pretty close to that.

Senator HITCHCOCK. And they will be deprived of that under this bill.

Mr. HULBERT. Yes.

Senator HITCHCOCK. That is one of the things which might keep them from coming into this system.

Mr. HULBERT. It will make them reluctant to come into the system.

Senator HITCHCOCK. Suppose they don't come in?

Mr. HULBERT. If your bill becomes a law they would have to come in.

Senator O'GORMAN. They will be compelled to come in.

Mr. HULBERT. They will be compelled to come in.

Senator HITCHCOCK. Would they still be able to make this collection charge?

Mr. HULBERT. No, sir; I think not; because this bill provides that any check drawn upon a member bank by an individual shall be collected without charge; so that if a bank is not a member bank its check will not be collected and nobody will send checks to it for collection. It will be whipsawed.

Senator HITCHCOCK. Now here is John Smith. He deals with a country bank; he draws a check on the bank at Podunk.

Mr. HULBERT. Not a member.

Senator HITCHCOCK. And he sends that check to the wholesaler from whom he buys his goods. The wholesaler wants to keep his trade so he accepts the check.

Mr. HULBERT. The wholesaler is pretty apt to suggest to him "Why don't you get into a member bank?"

Senator HITCHCOCK. Well, I am assuming all the country banks would stay out. The wholesaler is anxious for that business. He accepts the check because he wants to hold the trade. He does his banking business with a member bank. He deposits that check with that member bank. What is the member bank going to do?

Mr. HULBERT. It would have to send to the country bank for the money.

Senator HITCHCOCK. For collection?

Mr. HULBERT. Yes.

Senator HITCHCOCK. That is if they should stay out of the system.

Mr. HULBERT. Yes; but I should think it would probably work out, if the system got into operation, that a new country bank would be started and go into it, and that would give it a very great advantage over the other fellow in the same town, because they could say at once to all the people in the village, "You come and deposit with

us and your checks will go everywhere in the United States at par, but if you draw your checks on the other bank they will not be par anywhere; it will cost something to collect." The people outside will certainly not like it.

Senator HITCHCOCK. He will lose 5 per cent on his capital per year.

Mr. HULBERT. Pretty close to that.

Senator HITCHCOCK. He would have to put up one-tenth of his capital; he would be required to place his reserves in a certain place without any interest; therefore he would lose interest on his reserves; he would lose the 5 per cent he is now making on his capital by discounting his own checks; he would lose the interest which he is now making on his 10 per cent capital instead of 5 per cent which he would make out of his investment.

Mr. HULBERT. Yes.

Senator NELSON. You will remember, Senator Hitchcock, that that committee representing the Chicago conference, one of the representatives made that point about these checks. He said it was one of the great sources of revenue of the small country bank. I think he was the gentleman from Louisiana.

Senator HITCHCOCK. It was Mr. Wexler of New Orleans.

Senator NELSON. No; not that gentleman.

The CHAIRMAN. Mr. Wexler did point that out.

Senator NELSON. But it was another man who had that part of the question assigned to him.

Senator WEEKS. Mr. Hulbert, do you think it would be possible to determine how much it costs the banks of the United States annually to collect those checks?

Mr. HULBERT. Yes.

Senator WEEKS. And are figures obtainable to show how much charge is made to the business community for this service?

Mr. HULBERT. Oh, yes. Of course, you could not get the figures accurately, but you could get a pretty good idea.

Senator WEEKS. You could get an approximate idea.

Mr. HULBERT. Yes.

Senator WEEKS. How could we get the actual cost of the collection of checks for a year?

Mr. HULBERT. In the whole United States?

Senator WEEKS. Yes.

Mr. HULBERT. Or in any one community?

Senator WEEKS. I mean in the United States.

Mr. HULBERT. You could not get it accurately, but I think the clearing-house managers in the clearing-house cities could get you the figures approximately.

Senator O'GORMAN. In a recent investigation, I think in the so-called Pujo inquiry, that information was furnished at length. By referring to the record any of us can get that information. It showed the amount of money received, I think, by the New York banks and by the Boston banks for this service, what the cost was and what the net profit was.

Mr. HULBERT. I think that can be gotten at.

Senator WEEKS. I had forgotten that.

Mr. HULBERT. Now, I want to suggest in section 23, page 41, line 11, that the words "national banking associations" be changed to "member banks."

Senator O'GORMAN. That is a very proper correction.

Mr. HULBERT. Probably it was not intended that way.

Senator NELSON. Strike out "national" and insert "member."

Senator O'GORMAN. Mr. Hulbert, before you proceed, the same change that you suggest on line 12 should for the same reason be made on line 16, if you will refer to the bill.

Mr. HULBERT. Yes; that should be changed.

Senator O'GORMAN. It should be changed to "member bank" instead of "national banking association."

Mr. HULBERT. Yes; I think I passed something over that I wanted to speak of, the rediscount.

Senator HOLLIS. That is on page 24.

Mr. HULBERT. This bill provides that when the Federal reserve board turns over any notes to the Federal reserve bank, these notes shall become the first lien, the paramount lien, on the assets of the reserve bank; but when the reserve bank turns around and loans these notes to a member bank it does not provide that the loan shall become a paramount lien on the member bank. It seems to me that that is a defect in the bill. In my judgment it is bad banking for the reserve bank to be required to loan a member bank the face value of the collateral. That is something one bank does not ordinarily do for another.

Senator HITCHCOCK. Mr. Hulbert, what is going to become of the depositor in the individual bank?

Mr. HULBERT. That is a question that always arises.

Senator HITCHCOCK. You simply take away from him what you are giving to the reserve bank?

Mr. HULBERT. That is true. When the reserve bank makes a loan of these notes the member bank gets the notes and has full value for its loan. I recognize that objection, however.

Senator NELSON. But here is another difficulty in the application of that. The reserve note will indicate what reserve bank it comes from, but when a member bank secures those notes and they go into circulation how are you going to tell where they come from?

The CHAIRMAN. It is the volume of the notes and not the identity of a note to which he refers.

Senator NELSON. How are you going to tell what bank you must go to for security?

Mr. HULBERT. It is the loan, not the note.

Senator NELSON. I thought you meant the currency.

The CHAIRMAN. No.

Mr. HULBERT. When a member bank borrows money from a reserve bank is what we are referring to. I did not state it very clearly, perhaps.

Senator HITCHCOCK. There is no reason why the reserve bank should be protected against any loss to the same extent that there is a reason why the Government should be protected against loss. If there is to be a loss, it seems to me a part of it might better fall upon the reserve bank—representative of the banks—than to have the whole thing fall upon the depositors of the defaulting bank.

Mr. HULBERT. I see that line of argument. Of course that does not appeal to the banks who have stock in the reserve bank particularly.

Senator HITCHCOCK. It makes their loss mutual.

Mr. HULBERT. If it is to be left as it is, without making these debts a first lien on the assets, I want to suggest that it is bad banking for any banking institution to loan promiscuously to banks money on commercial paper at its face value, because every banker who comes here will tell you that it is the usual experience that when a bank fails the collateral that it has put up is not worth 100 cents on the dollar. You can pick it out as carefully as you like and if you leave this bill as it is and do not make these debts a first lien on the assets and do not require any more collateral than you have here, every time a member bank fails the reserve bank is going to get stuck. Of course that is hard on the stockholders, who do not expect to fail. No banker would advertise or solicit business on the ground that every bank that did business with him could borrow money from him on commercial paper at par, letting him pick out the commercial paper.

Senator HITCHCOCK. The reserve bank, under the terms of this bill, is under no compulsion whatever to loan or discount the paper of a member bank.

Mr. HULBERT. It would be regarded as a very serious breach of faith if a member went to a reserve bank with what he thought was good collateral, and they said "We will not loan you any money."

Senator HITCHCOCK. That is the power absolutely vested in the reserve bank.

Mr. HULBERT. You do not believe that power would ever be exercised, do you? I do not.

Senator HITCHCOCK. I am afraid it might be. And that is one of my objections to the bill in its present form—that the bank loses its independence and becomes absolutely helpless and dependent upon the decision of the reserve bank in the first place.

Mr. HULBERT. It seems to me it would be a mere whim of a bank situated as the reserve bank would be to say to any member, "We will not loan you money."

Senator HITCHCOCK. Well, Mr. Hulbert, Prof. Sprague, of Harvard, who was here the other day, gave as one of the reasons why he indorsed the bill the fact that it would enable reserve-bank directors to enforce certain ideas of banking on the member banks. When I asked him how he would enforce those ideas, he replied that it would be by refusing to give discounts to the offending bank.

Mr. HULBERT. I do not think you would ever get a banker to make any such statement as that, Senator Hitchcock. You would have hard work to do that, because that is a banking proposition, and if the reserve banks are going to have bankers on the boards, and business men on the boards, and undertake to say to each member, "We are going to regulate your business; we are going to tell you when to borrow money and when not," to my mind it would be absurd.

Senator HITCHCOCK. Prof. Sprague went on to say that he believed that would give them a disciplinary power; if a bank failed to observe regulations in making remittances, for instance, when they come for a loan the door might be closed to them and that that would be a compulsion which would force them to recognize the theory of the board of directors in doing business.

Mr. HULBERT. I am willing to take a chance on that.

Senator HITCHCOCK. He went further. In answer to my question whether if the board of directors of a reserve bank might feel that the

banks in my State were loaning too liberally to farmers to make improvements, loaning too liberally in real estate booms, or loaning too liberally for the purpose of buying automobiles, he said that they would exercise a restraining influence on those banks in my State, and compel them to restrict the loans.

Mr. HULBERT. I should certainly hope they would not do that.

Senator HITCHCOCK. That is one of the——

Mr. HULBERT (interposing). I should think, Senator Hitchcock, that the examiners who go out frequently to member banks would have the same advisory powers as they have now; but that the board of directors of the reserve bank would undertake that kind of a job, I can not believe, because they could not do it. In the first place, they would be fools if they tried it. There is no man wise enough to do that.

Senator NELSON. Take the other horn of the dilemma: Suppose the board of the reserve bank had not the power to say whether bills should be issued upon commercial paper offered for discount, because that is what the bill contemplates——

Mr. HULBERT. Yes.

Senator NELSON. That bills of the regional bank shall be issued——

Mr. HULBERT. Yes.

Senator NELSON. Suppose there was no restriction on a member bank to keep in that paper; it could dump it into the regional bank, could it not, if there was no brake on it, and lead to excessive inflation?

Mr. HULBERT. There is no brake on it, Senator Nelson, as far as I can see.

Senator NELSON. The brake is this board.

Mr. HULBERT. You mean the board? They might say to a certain bank, "You have borrowed all you ought to." I think this bill is pretty wide open in that respect. There is no limit at all upon what one bank can borrow.

Senator HITCHCOCK. We have developed that under the terms of this bill the board of a reserve bank can refuse to discount any paper for a bank in a certain community, and for another bank in the same community can discount all the paper that it has got.

Mr. HULBERT. They undoubtedly can under this bill, and they probably could under any bill. You have got to have that power vested somewhere.

Senator HITCHCOCK. You think there should be no restriction provided by Congress on the discretion of the board of directors of a reserve bank?

Mr. HULBERT. I can not imagine how such restriction would be worded so as to be workable.

Senator O'GORMAN. Mr. Hulbert, do I understand that a reserve board at all times can exercise the restraining influence on the officers of the regional bank?

Mr. HULBERT. Certainly.

Senator O'GORMAN. And that whenever the officer of a regional bank abuses or misuses his power, that he is likely to be decapitated by the reserve board?

Mr. HULBERT. I should think any captious discrimination between one bank and another would lead to some such discipline pretty quickly. I can not imagine such a thing being done.

Senator HITCHCOCK. Suppose a case in which it is not captious. I have seen in my town one national bank have United States deposits to the extent of, say, $400,000, and other banks equally good have a deposit of, say, $100,000. There was no captious discrimination. It was simply vested in the discretionary power of the Washington authorities. Now, then, suppose this Federal bank discounts the paper of one Omaha bank to the extent of $400,000 and to another bank across the street, of equal capital and equal resources, only discounts to the extent of $100,000?

Mr. HULBERT. Is it quite a parallel case? It does not seem to me so. I was a national banker for about 16 years, and I used to come down to Washington and try to get Government deposits, and I found it was like kissing—went by favor, absolutely; so one bank gets it and another bank does not get it; but that is owing to the way in which Government deposits are distributed. There is no pretense that they shall be divided equitably among the banks. I think it has never been done. I do not think it has been handled fairly, but nobody has made any special complaint about it. But this is an open, public affair that everybody is interested in and everybody knows what is going on, and I can not imagine that the officers of any reserve bank or the directors would dare to exercise any captious discrimination.

Senator HITCHCOCK. Do you say it is known to what extent the reserve board is discounting for individual banks?

Mr. HULBERT. I should think it would be; not publicly, perhaps.

Senator HITCHCOCK. That is one of the reasons why the banks are said to dislike it, because it is public.

Mr. HULBERT. They could not do things of that kind very much without it being known.

Senator WEEKS. The statements would show it?

Mr. HULBERT. The statements would show it; yes.

Senator HITCHCOCK. What would be the effect upon a bank in a community if it were known that it was unable to get reserves from the reserve bank?

Mr. HULBERT. It would be a very serious thing.

Senator HITCHCOCK. So that the bank itself that was suffering would be interested in keeping it secret and would be afraid to make a complaint?

Mr. HULBERT. I can not answer that, only I feel that nothing of that kind could happen. These men who are elected as directors of the regional reserve banks—there are nine of them, if I remember rightly——

Senator O'GORMAN. Yes.

Mr. HULBERT (continuing). Have to be a pretty good lot of men and a pretty decent lot of men. Things of the kind that you suggest would be a crime; men who would do that ought to go to jail.

Senator O'GORMAN. We have a very good lot of men in national banks, and yet the national banking act puts very strong restraints on their power. They are allowed to loan not over 10 per cent of surplus and capital.

Mr. HULBERT. But it does not compel them to loan.

Senator O'GORMAN. And there are other restrictions in there which restrain the board of directors in the control of their own property.

Mr. HULBERT. They do not try to compel them to loan money to anybody they do not want to.

Senator O'GORMAN. But they are restrained in the control of their own property for the public good. Do you not think some restraint should be put upon these men who are running the property of others?

Mr. HULBERT. I certainly would not recommend any change which would compel them to loan money to banks whether they wanted to or not

Senator O'GORMAN. Then, would you not recommend a change which would limit the amount?

Mr. HULBERT. I say I think this is pretty wide open as it is now. There is no limit.

Senator WEEKS. One of the developments of the Pujo investigation was that there had been cases in clearing-house communities where the clearing house had refused to clear for certain banks, and that was believed to be a sort of abuse. If that power is an abuse in such a case as that, would not the same abuse be continued by this bill in its present form?

Mr. HULBERT. I do not admit that any such thing as that ever happened. I do not believe it did, myself.

Senator WEEKS. Have there not been cases in Chicago where banks have not been admitted to the clearing house?

Mr. HULBERT. Not unjustly; no, sir

Senator WEEKS. There is the point, whether it is justly.

Mr. HULBERT. Not arbitrarily; not in Chicago nor anywhere else I ever heard of.

Senator WEEKS. I think there have been cases in every large city where a refusal has been made to admission to the clearing house.

Mr. HULBERT. Certainly; there is no doubt of that.

Senator WEEKS. And it is charged that this abuse which the larger and stronger banks——

Mr. HULBERT. Somebody says so. Nobody knows the facts of the charges.

Senator WEEKS. That is pretty generally charged.

Mr. HULBERT. There are only a few such cases. I would be very glad, if it would not be injuring these banks that are not doing business, to submit figures in every one of them, and you would say finally, as did the clearing house, that you would not admit them.

Senator WEEKS. I am pretty familiar with some of those cases.

Mr. HULBERT. I know you are.

Senator WEEKS. And my idea is that your statement is substantially correct, but still there exists in the public mind the idea that large and strong banks have refused to allow the weaker and possibly competing banks to come into the clearing house, and have prevented the development of their business by so doing.

Mr. HULBERT. But you know, Senator Weeks, that that is not true. I know there is a popular notion to that effect, but the tendency in every clearing house, fearing that kind of criticism, is to let banks in which ought not to be in. That has been the experience. But I am perfectly willing to assert here that there has not been a case where a bank has been thrown out of a clearing house and it turned out to be solvent.

Senator WEEKS. The result has been, generally speaking, that a bank which has been refused clearing-house privileges or has been

thrown out of the clearing house after receiving the privilege, has failed.

Mr. HULBERT. And its assets have been proven to be insufficient to pay the depositors.

Senator WEEKS. Probably that is true.

Mr. HULBERT. Yes.

Senator WEEKS. Is there not a possibility that kind of a condition might exist under this bill and really become an abuse?

Mr. HULBERT. I do not think that any such abuse exists now and I do not think it would under this bill. I do not think there is the slightest danger.

Senator O'GORMAN. Have you concluded your criticism of the bill?

Mr. HULBERT. Not quite.

Senator O'GORMAN. Because I have one or two questions when you get through.

Mr. HULBERT. There is nothing very important here, but I do want to ask, for information, why this time limit on farm loans is made so short. It is no benefit to the country banker to be allowed to loan money on farms for a year. If he can not loan for five years he would not care to loan at all.

Senator O'GORMAN. What page is that?

Mr. HULBERT. Page 44, section 26.

Senator NELSON. You are right about that: it is of no value at all in its present form.

Mr. HULBERT. It would be a great satisfaction to the small country banks if they could be permitted to loan on farm lands for five years, but to be permitted to loan for a year is nothing.

Senator NELSON. They do not make loans of that kind?

Mr. HULBERT. No.

Senator HOLLIS. Do you speak of national banks being allowed to make farm loans for five years?

Mr. HULBERT. Yes.

Senator HOLLIS. You approve of that?

Mr. HULBERT. Yes.

Senator HOLLIS. You think that is a good policy?

Mr. HULBERT. Yes.

Senator NELSON. It is the best kind of paper. You and I know about that. There is nothing better.

Senator O'GORMAN. In this connection, Senator Owen, I would like to call your attention to the need of making the change suggested by Mr. Hulbert in another place, on the first line of page 44, substituting "member bank" for "national banking association." That may occur several places through this bill.

Mr. HULBERT. If I may interrupt there, Senator O'Gorman, there is nothing in the bill, I take it, that prevents State banks from loaning all the money they please on farm lands, so that this does apply to the national banks only.

Senator NELSON. You can not; unless you make the rule that State banks should come in under the same conditions, you would not want to change that.

Senator O'GORMAN. That would be that "any national member banks"?

Mr. HULBERT. I think that is the intention, to apply only to national banks.

Senator NELSON. Most State banks can loan on farm lands?

The CHAIRMAN. Nearly all of them.

Mr. HULBERT. I think they nearly all can, practically.

Senator NELSON. If you cut them off from that they would not any of them come into this system.

Mr. HULBERT. This provision in the same paragraph that limits the aggregate amount to be loaned on farm lands to 25 per cent of the capital and surplus is so small as to make it without any value.

Senator NELSON. Would it not be better to say that a certain percentage of the time deposits——

Mr. HULBERT. That was so in this bill originally—50 per cent of the time deposits.

The CHAIRMAN. Fifty per cent of the time deposits would be a larger amount and more desirable to the bank?

Mr. HULBERT. In every way.

The CHAIRMAN. Would there be any danger in allowing them to run up to the margin?

Mr. HULBERT. You know, Senator Owen, there are a lot of small country national banks; in fact, the majority of them, that while it does not show in their figures, their deposits are very largely time deposits, frequently 75 or 80 per cent of their deposits would be time deposits, and I should say that to allow them to run up to their full amount would be too much.

Senator NELSON. He is correct about that; the bulk of the deposits of small banks are time deposits. And here you must bear in mind, gentlemen, that the deposits of these country banks are, as a rule, actual money passed over the counter, while some of these city banks it is simply a matter of bookkeeping. A man goes in and gives his note for $100,000, and he is credited on the deposit side as having deposited that much money. Now, if it is a country bank, the farmers come in and deposit their actual cash.

Senator HITCHCOCK. Not altogether, Senator Nelson. Farmers receives pay for a crop of wheat usually by check.

Senator NELSON. That is the same as cash.

Senator HITCHCOCK. No; I think that is a credit on a town bank.

Senator O'GORMAN. An exchange of credit.

Senator NELSON. A man came to me when I was out home to pay me a little bit, and he handed me an elevator check, and I went right over to the bank and got the cash on it.

Mr. HULBERT. I hope the committee will consider that, because it is a matter of very great importance to the small banker, and he does not get up here very often. We bankers in the city are getting letters from the small country bankers all the time, asking us if we can not help them out on these things. If you are going to let them loan on farm lands, let them make the loans for five years.

Senator NELSON. And a percentage on the time deposits.

Mr. HULBERT. And a percentage on the time deposits; otherwise you may as well strike it out.

Senator O'GORMAN. Your suggestion is that it should be 50 per cent of the time deposits and five years to run?

Mr. HULBERT. Fifty per cent of the time deposits and five years.

Senator NELSON. You had a provision in the monetary bill, what was that?

Senator WEEKS. I think it was 50 per cent of the time deposits.

Mr. Hulbert, have you any suggestion about this proposition that the privilege of loaning in that way be limited to banks outside the reserve cities?

Mr. HULBERT. Oh, yes; I think it should be.

Senator NELSON. Limited to country banks?

Mr. HULBERT. Yes; I think so, because I can not imagine any reasons why national banks in reserve cities should be loaning on farm lands.

Senator WEEKS. You would not want to do it on farm lands?

Mr. HULBERT. We are doing it in a certain department of ours which does nothing else, but I should think it would be a mistake for this bill to permit national banks in reserve cities to do loaning of money on farm lands.

Senator WEEKS. Especially if they were receiving reserve deposits?

Mr. HULBERT. Reserve deposits; yes, sir.

Senator NELSON. Senator Owen, I think that provision should be limited to country banks.

Mr. HULBERT. It is now in the bill.

I want to talk a moment about section 27, still on page 44.

The CHAIRMAN. Before leaving that point of the country banks, Mr. Hulbert, I want to call attention to a complaint made by a number of New Jersey country banks, who called attention to the character of their deposits. They have a large volume of time deposits, which in effect are of a savings character, and they call attention to the provision in this bill which would set up a separate savings deposit. They do not want to be compelled to set up a separate savings department, because it adds to their expense, and furthermore might lead to their being required to put the proceeds into investments in municipal or State bonds, whereas they use a considerable part of that fund for local development—money which is made in the locality. Do you think their suggestion is sound?

Mr. HULBERT. I do. I was just going to talk about that, Mr. Chairman.

In section 27—it seems to me you get that complaint from almost every locality, and I want to ask why it would not accomplish what you are trying to do a good deal better if you saw fit to adopt my suggestion that I made earlier in the talk, of making the reserve requirements of banks 18 per cent on demand deposits and 5 per cent on time deposits? Take the case of the banks, Senator Owen, that you are speaking of, down in New Jersey, with their deposits largely——

Senator NELSON. Time deposits?

Mr. HULBERT. Time deposits; these are national banks, I take it, that you are speaking of?

The CHAIRMAN. Yes; they are.

Mr. HULBERT. There are a lot of State banks down there in the same situation. The State bank coming into this association would have to carry 18 per cent of time deposits, and the national bank under this plan for the segregation of savings deposits would have to carry 18 per cent against all its certificates of deposit, or, if a country bank, 12 per cent. I want to repeat what I said at first, that if this

plan gets in operation the bank will not need as large cash reserves as it has got now. That is obvious?

The CHAIRMAN. I think it is.

Mr. HULBERT. Because now we are depending on our cash reserves for emergencies, but when we get a plan by which the resources of the banks can be used for the benefit of all the banks whenever it is necessary, you need to keep only a little reserve; and it is a pretty big hardship, and it is going to be a serious injury to the country to tie up all this money unnecessarily, to try to make banks carry a flat 18 per cent reserve against all their deposits, because the effect of this bill is going to take away the necessity of the reserves, even under our present conditions. The great necessity for reserves comes from the deposits of one bank with another, and with this bill in operation that will be very largely eliminated and the reserve requirements will be very much less and the protection to the bank without reserve will be a great deal better than it is now. There is a great deal of objection everywhere to this bill on account of the reserve provisions, and if you make reserves 18 per cent on demand deposits, it seems to me——

Senator NELSON (interposing). That is, in the big banks?

Mr. HULBERT. Yes.

The CHAIRMAN. In reserve cities?

Mr. HULBERT. Yes; in the central reserve and reserve cities; and 12 per cent for the country banks on demand deposits and 5 per cent all through on time deposits. It seems to me that will be perfectly sound and it will be a great deal better for the country, because it will not be contracting credit so much when this goes into operation, and that is something which no banker on earth can reasonably object to. If the time deposit is called a demand deposit within 30 days of maturity, you get all the protection you need, and it seems utterly absurd to say that 18 per cent must be tied up against six-month deposits, such as these banks are carrying, and with that I do not see any necessity for segregating the savings department. Of course, there is a great deal of criticism to be made of this section. Mr. Jones referred to it yesterday, but I want to speak of it also. This bill provides that the savings department can do any kind of business without restrictions. It can loan 100 per cent of its capital to one person, if it chooses.

Senator NELSON. Invest that capital in stocks and bonds?

Mr. HULBERT. Invest it in stocks and bonds, and it can take demand deposits. Under this section as it is drawn the savings department could do anything it pleased without restriction. Certainly that was not intended.

Senator O'GORMAN. What restriction would you suggest?

Mr. HULBERT. Well, I would suggest striking that section out altogether. I take it, Senator O'Gorman, that you do not approve of anything such as this, as I know——

Senator O'GORMAN. I believe there should be some restraint.

Mr. HULBERT. I put down here, I believe, some of the things: That they may loan to officials and directors without restriction.

The CHAIRMAN. You write the objections you have, Mr. Hulbert, so we can get it in the record.

Mr. HULBERT. This covers the whole point, and I think Mr. Jones covered it yesterday, Senator Owen, quite completely. It says somewhere here that—page 47, beginning with line 17:

The Federal reserve board is hereby authorized to exempt the savings departments of national banking associations from any and every restriction upon classes or kinds of business laid down in the national banking act——

Senator HOLLIS. If the Federal reserve board is all right they would make good restrictions.

Mr. HULBERT. If you are going to leave all those things to the Federal board you do not need any restrictions in your bill.

Senator HOLLIS. There are not a great many.

Mr. HULBERT. It is pretty wide open.

Senator HOLLIS. That is undoubtedly the theory that they would establish rules that would approximate the rules of savings banks in the State?

Mr. HULBERT. Yes.

Senator NELSON. You can see how this will work. Let me call your attention to how the small national banks operate now. Three-fourths of their deposits are time deposits, and if you enlarge it so as to allow that class of banks to loan on farm property, a limited amount, it would help the farmers. All the rest of their resources would be devoted to commercial loans. Out of this system they would divert a part of their funds into this savings department, and it would be tied up in stocks and bonds and other securities, whereas if you leave the system as it is, they are practically conducting a savings department by their time certificates, and under the present system giving them that money would only be available for commercial purposes or for farm loans, while under this savings department they could divert their funds and use them for anything in God's world, and you can see that Mr. Jones and this gentleman are eminently correct in their view.

Senator HOLLIS. I have a letter from one national bank in my State saying that they have been conducting virtually a savings-bank business for a number of years, and they very much prefer to have this left out, because they are doing a better business and more satisfactory to themselves at present. Do you believe that is so, Mr. Hulbert?

Mr. HULBERT. I do; yes, sir.

Senator HOLLIS. And you think it would make them more efficient in the savings department, so far as desirable to be left under the present law rather than to have this in here?

Mr. HULBERT. I certainly do.

Senator HOLLIS. Have you received any different opinion on that?

Mr. HULBERT. This has been in the bill such a short time, Senator Hollis—I think it has only been in here a few days—and I have not heard very much discussion about it. Of course, there is this situation that ought to be cleared up: The national banks are coming more and more to a savings business, and everybody questions their authority. It seems to me that ought to be cleared up. They ought to have the right——

Senator NELSON (interposing). There is a legal question about it, but as a matter of fact the practice has existed, I do not know whether I should say for 25 or 30 years.

Mr. HULBERT. It has been growing rapidly for the last few years, and one of the witnesses here yesterday said there is over $800,000,000 of that sort. I did not know that there was that much.

Senator NELSON. It is a very curious thing, gentlemen, but farmers will come in with their money and deposit it on time certificates drawing 4 per cent instead of loaning it out to their neighbors on a mortgage drawing 6 per cent.

Mr. HULBERT. The amount is $829,000,000, Mr. Clark says.

In regard to this section, if it is left in, I want to ask to have the situation cleared up as regards State banks. I understand there was no intention of having this provision of the bill apply to State banks, to have them segregate their savings deposits as a national bank would have to do; but this bill could be construed the other way. I asked our attorneys before I left home what they thought about it, and they read the bill, and they said that under the bill State banks coming in would have to do that. They based their reason on this—on section 10, page 16, from line 18 on:

No such applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association—

And these three lines are what I want to call your attention to—

and conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the Federal reserve board.

Take that, in connection with the reading of this section, and I think it might ordinarily be construed to include State banks, on page 49, beginning with line 3:

Every regulation made in pursuance of this section shall be duly published, and also posted in every member bank having a savings department.

That clearly would include State banks and trust companies, would it not?

The CHAIRMAN. I think it would, under that language.

Mr. HULBERT. Yes. Then, in the next paragraph, beginning with line 6:

Every officer, director, or employee of any member bank who shall knowingly or willfully violate any of the provisions of this section—

I assume, as a matter of course, and I am told by those who have had to do with this bill in the House, that it was not intended to bring State banks under that restriction. Of course it would be a serious matter for an old State bank that has been doing business for 50 years to have to rip up its organization in that way.

Senator NELSON. Here is a question, Senator Owen, that occurs to me, that this savings-bank provision in the bill would destroy the power of these little banks to issue time certificates of deposit, would it not?

The CHAIRMAN. It might possibly be so construed, although I do not think that was the real purpose.

Senator NELSON. But that would be a most serious thing.

Mr. HULBERT. That is all, Mr. Chairman.

I might say, in regard to this last section, the foreign branches, that I should think it might be well to change that to "member banks." Why should not the State banks be allowed to establish foreign bank connections if they wanted to?

The CHAIRMAN. Will you be here this afternoon, Mr. Hulbert, as there are a few questions I want to ask, and perhaps also other members of the committee?

Mr. HULBERT. Yes.

The CHAIRMAN. If it please the committee, we will now recess until half past 2.

(Thereupon, at 1.12 o'clock p. m., the committee took a recess until 2.30 o'clock this afternoon.)

AFTER RECESS.

The CHAIRMAN. Mr. Hulbert, you may proceed.

STATEMENT OF MR. E. D. HULBERT—Resumed.

Senator HITCHCOCK. Mr. Hulbert, you favor the general purpose of this bill, as I understand?

Mr. HULBERT. Yes.

Senator HITCHCOCK. And is one reason you favor the bill on account of the elastic currency it undertakes to provide?

Mr. HULBERT. No; I do not care about that.

Senator HITCHCOCK. You think that is not an important matter?

Mr. HULBERT. I do not think it is.

Senator HITCHCOCK. You think the country has sufficient currency at the present time?

Mr. HULBERT. I think it has about twice as much as it needs.

Senator HITCHCOCK. It is not on account of providing an elastic currency you think the bill is useful?

Mr. HULBERT. That is my individual opinion. Of course, there are a good many people who think differently who are wiser than I am, but that is my individual opinion.

Senator HITCHCOCK. Is it because of the mobilization of reserves that you favor it?

Mr. HULBERT. No. I favor it because it gives the banks a place to go for additional credit when they need it, and I think that is the only thing the American banking system needs. I think the American banking system is the best on earth. I think it is the very best in the world.

Senator HITCHCOCK. You think the credit for those banks could be provided for without providing for additional currency?

Mr. HULBERT. There does not seem to be any better way of doing it. Although it is necessary to have additional currency or means of issuing additional currency, I believe that under the workings of this bill the new currency wont enter into it perhaps as much as a good many think it will. The banks in time of stress will go to the regional reserve bank and get credit there that they can check against. They wont get currency; they rarely get that; there is plenty of currency in the country now, but I think what we need is an elastic credit, and this bill is going to provide for that.

Senator HITCHCOCK. At the present time, this credit being limited when a certain point is reached, a stringency occurs and that restrains further expansion of credit?

Mr. HULBERT. Yes.

Senator HITCHCOCK. Will you explain how you would provide any limit to the expansion of credit under this system that is proposed?

Mr. HULBERT. I said this morning I think it is too wide open. There is no limit.

Senator HITCHCOCK. Without any limit provided for the expansion of credit, is there not danger of what we call inflation?

Mr. HULBERT. In my judgment there is not as much under this plan as under the so-called Aldrich plan, because under that plan it provided that the notes which were issued by the reserve association should be eligible for bank reserve. Now it seems to me very clear that this bill does not authorize banks to count these regional reserve notes as reserve and that in itself would do away with any great danger of expansion. The danger of expansion, as Senator Aldrich expressed it, is where banks can replenish their reserve indefinitely, because when they can replenish their reserve indefinitely they can go right on loaning money indefinitely. There is no limit to it, and these notes, that are not available for reserve, wont create any expansion of credit beyond the actual volume of notes. So, I think these notes, so far as any expansion is concerned are not much more dangerous than the issuing of checks. We are not afraid of the amount of checks that may be issued. They are simply currency, just as checks are currency, and so long as they are not available for reserve, I do not believe there is any very great danger of overexpansion.

Senator HITCHCOCK. It is provided in the bill that reserve banks may discount the paper of member banks without limit.

Mr. HULBERT. I think that i s a mistake.

Senator HITCHCOCK. What limit would you place, if you think there should be any?

Mr. HULBERT. This bill originally, as I remember it, provided for the rediscount of the direct obligations of the bank in an emergency, under certain conditions. That, of course, was designed to meet a great stringency. For some reason or other I see that has been stricken out of the bill. I think the provision of the Aldrich bill is pretty good in that respect, but should be limited in normal times to the capital and surplus of the bank. I think that is quite enough and better, in ordinary times, but when a crisis comes and there is a general stringency and contraction of credit everywhere, I would provide that the reserve association could loan without limit. But in ordinary times I think loans should be limited to the capital and surplus of the banks.

Senator HITCHCOCK. Taking off the limit, a bank can go to a reserve bank with an unlimited quantity of reserve paper and discount it.

Mr. HULBERT. Yes.

Senator HITCHCOCK. And if all the banks, say 20,000 banks, came into the system, there would be 20,000 banks with that privilege, and that demand upon the reserve banks would be met by them as far as they could from their own resources at that time, and when they reached their limit the reserve bank would apply to the National Government for currency. And would you think there would be a limit on the amount of currency required by the fact that the reserve bank is required to keep a gold reserve of one-third?

Mr. HULBERT. That is a check, of course.

Senator HITCHCOCK. And that check would be sufficient to prevent——

Mr. HULBERT (interposing). I think that is rather a small reserve myself.

Senator HITCHCOCK. I agree with you. As a matter of fact, the central banks of Europe keep 50 to 60. The Bank of France at the present time has over 80 per cent.

Mr. HULBERT. Yes. I had assumed that the regional reserve banks, as a matter of practice, will carry a great deal more than 33⅓ per cent. I can not imagine managers of regional reserve banks running on a 33⅓ per cent reserve of gold, which I take it is the minimum. The present reserve laws have never been observed fairly by the banks, because nearly every bank in the United States to-day carries always the minimum reserve. I take it that was not what the law contemplated, because they can not keep that minimum all the time. Their reserve is going below the minimum a great deal of the time: The reason why the banks are doing that is because they are money-making institutions. With the regional reserve banks, which are not to be money-making institutions, I can not imagine them running with a 33⅓ per cent reserve. I think they would naturally carry 40 or 50.

Senator HITCHCOCK. Suppose the demand on them for the discount of paper continues; your view is they must continue to discount?

Mr. HULBERT. Yes

Senator HITCHCOCK. Without any favor and to all banks?

Mr. HULBERT. Yes.

Senator HITCHCOCK. But of course then they may not be able to carry 40 per cent?

Mr. HULBERT. They have pretty good facilities for buying gold and keeping up their reserve.

Senator HITCHCOCK. That all depends on the quantity of paper they must discount?

Mr. HULBERT. Oh, yes; they have got to keep both sides going.

Senator HITCHCOCK. There must be an unlimited demand for discount?

Mr. HULBERT. Yes.

Senator HITCHCOCK. And the bank will discount paper as long as it is profitable to do so?

Mr. HULBERT. I do not feel that the banks are going to make very great use of that discount privilege in ordinary times. Perhaps that is not quite in line with what I said to you this morning. I do not intend to be inconsistent, but I think the managers of the regional reserve banks will find it possible and reasonable to put some check on that. If they find banks are without any urgent necessity for borrowing, borrowing money and loaning it to make money, they might properly put a check on it.

Senator HITCHCOCK. Would you think it is true to-day that the careful banks do not discount very largely, and the more venturesome banks discount a great deal?

Mr. HULBERT. They do now.

Senator HITCHCOCK. But suppose under this bill there were 20,000 banks having rediscounts, and that they had all reached a point for inflation. What would be the injurious effects?

Mr. HULBERT. We all know what the injurious effects of inflation are. It can best be described by taking an individual case. The individual cases put together make up the excessive inflation of the country. When any single borrower gets a larger line of credit than he is entitled to, and his credit becomes inflated so that the amount of debts is very greatly in excess of capital, then there comes the danger. The same percentage of loss which comes to all business concerns would come to this one, and this percentage of the amount of indebtedness they have out will wipe out their capital. That is the real danger of inflation, as I look at it, and you have failures all around because those concerns become overexpanded.

Senator HITCHCOCK. What would be the step taken by the reserve banks or the reserve board to put an end to inflation?

Mr. HULBERT. They would have to use some discretion, of course.

Senator HITCHCOCK. What would it be? Would they raise the rate of interest or stop rediscounting?

Mr. HULBERT. I should say they ought to raise the rate of interest. I should say to stop rediscounting would be a last resort.

Senator HITCHCOCK. If they raised the rate of interest it would affect the temperate borrower, probably, as well as affect the others?

Mr. HULBERT. Yes; that would.

Senator HITCHCOCK. Would that be right?

Mr. HULBERT. I do not know how you could avoid it.

Senator HITCHCOCK. To bring about this period of inflation there would have been issued perhaps $500,000,000 of these notes. With your Government notes they are legal tender, but as provided in this bill those notes are not legal tender. They are inferior currency.

Mr. HULBERT. Yes.

Senator HITCHCOCK. What effect on the gold circulation would be produced by injecting $400,000,000 or $500,000,000 of inferior currency into our circulation?

Mr. HULBERT. I should not regard that as a dangerous limit if you provide redemption facilities that would require a proper reserve account against them. We have more than that in our circulation now.

Senator HITCHCOCK. I am asking what the effect would be to have $400,000,000 or $500,000,000 in addition to what we have now?

Mr. HULBERT. In addition to what we have now?

Senator HITCHCOCK. Yes.

Mr. HULBERT. We have to be sure they are going to be redeemed and must have reserve enough to redeem all that are presented; and by the terms of this bill, as I understand the last amendment to it, the credit of the Government is pledged to maintain those notes at par. I do not believe they would drive confidence out of the country. They would not until a fear arose that the Government was not able to maintain the gold standard and to maintain that currency at par.

Senator HITCHCOCK. The Government has on deposit only 5 per cent of the vast sum, and with 5 per cent of the deposits can not redeem $400,000,000 or $500,000,000.

Mr. HULBERT. I think myself that has not been worked out very well. I think that the redemption part of the bill needs more study. I do think so; I do not think the redemption facilities provided for are quite adequate now.

Senator HITCHCOCK. Do you think these would be presented for redemption as rapidly as national bank notes are now under the present law?

Mr. HULBERT. I am under the impression that the national bank notes now are rarely presented for redemption, except when they may become worn or defaced.

Senator HITCHCOCK. On the contrary, last year the Treasury redeemed 87 per cent of the national bank notes.

Mr. HULBERT. Can you tell me what purpose they were presented for? I do not understand that.

Senator HITCHCOCK. They were mostly presented by New York.

Mr. HULBERT. That, it seems to me, has no very large significance. I understand it is quite a custom of New York bankers. I may be saying something that is not quite true; but I have heard it has been the practice of New York banks when they get a lot of mixed currency on hand or a lot of bank notes they simply send them in for redemption so as to avoid the burden of counting and assorting the notes.

Senator HITCHCOCK. No, that is not the reason.

Mr. HULBERT. Then I am mistaken about it.

Senator HITCHCOCK. I will tell you the reason. The process is this: They come in from all over the country. The western bank has currency which it desires to add to its account in New York, and it knows that its gold certificates or notes can not be counted as reserve—the national-bank notes can not be counted as reserve—so it sends its bank notes to New York. Now, with 7,000 national banks all doing that same thing, New York is being constantly loaded up with national-bank notes and the New York banks can not count the notes with their reserve, so they send them to Washington and get legal tender in place of them, and the result is that 1 per cent, or nearly $7,000,000, a year of the $700,000,000 of national-bank notes are in fact redeemed. And it has been demonstrated that a 5 per cent fund in the Treasury is utterly inadequate. It is overdrawn $20,000,000 or $30,000,000 all the time.

Mr. HULBERT. I think it would be in that case.

Senator HITCHCOCK. Under those circumstances do you think the provisions of the bill for a 5 per cent reserve for those notes would be at all adequate?

Mr. HULBERT. I should say not. I have not thought so at any time.

Senator HITCHCOCK. You would feel, then, there might come a period when an inflation brought about by this constant destroying of notes and issuing of currency might make it necessary for the reserve banks or the reserve board to put a stop to the inflation. When that time comes, would not we have just the same injurious stringency that occasionally occurs in this country now?

Mr. HULBERT. I do not believe, Senator Hitchcock, we are ever going to do away with financial crises of some sort. I do not think we ever can do away with them by any possible legislation, but I think we can soften the blow somewhat.

Senator HITCHCOCK. Thus by stretching our credit to a greater extent than it is stretched now, too elastic currency would not recover without more difficulty than it does now.

Mr. HULBERT. If allowed to go to the full extent, it would not.

Senator HITCHCOCK. As a matter of fact, do you not believe, as a banker, Mr. Hulbert, that the occasional stringencies we have are healthy experiences to bring us back to more normal conditions of doing business?

Mr. HULBERT. I certainly do. I think we have got to have them, but I do not think it is necessary to have stringencies accompanied by panics. I think we can avoid that, but I do think we have got to have readjustments.

Senator HITCHCOCK. What we really need is some legislation to prevent a panic.

Mr. HULBERT. I think that is all anybody is asking for really.

Senator HITCHCOCK. This bill does not do that. This bill undertakes to provide for an expansive currency.

Mr. HULBERT. Yes.

Senator HITCHCOCK. And my own judgment is what we really want is something—we have enough currency now for normal times; all the business men have testified to that. But what we really need is some legislation that will avert panics and offer an opportunity of straightening out.

Mr. HULBERT. Yes. I think our banking system, with that one exception, as I said before, is the best in the world. I do not think we need a reorganization of our banking system myself.

Senator HITCHCOCK. As Prof. Fisher has got to come on this afternoon, I will discontinue my questions.

Senator BRISTOW. Can we have Mr. Hulbert back when Prof. Fisher gets through?

Mr. HULBERT. I am leaving this afternoon.

The CHAIRMAN. These gentlemen both leave this afternoon, and that is the reason I called the attention of the committee to it. Prof. Fisher is leaving on the 5.30 train.

Senator HITCHCOCK. I will give way to some other Senator.

Senator POMERENE. I would like to ask one or two questions.

The CHAIRMAN. Very well.

Senator POMERENE. Let me ask just one question, if I may. In answer to Senator Hitchcock's question you stated you were not satisfied with the redemption features of this bill, that it ought to be worked out more explicitly, and so forth?

Mr. HULBERT. Yes.

Senator POMERENE. And that 5 per cent was not sufficient?

Mr. HULBERT. Yes.

Senator POMERENE. I wish you would briefly state in what particulars you think the bill should be amended.

Mr. HULBERT. I am afraid I can not do that, Senator Pomerene. I feel that way, but I did not refer to it in my statement this morning because I was afraid somebody would ask me that question, and I would not know what to say. I have not studied it enough to express an opinion, but as Senator Hitchcock asked me that question I was obliged to say the bill is not in good form in that respect, but I did not attempt to criticize it, and I am afraid to undertake to offer any suggestions.

Senator O'GORMAN. Mr. Hulbert, we have had your view with respect to certain features of this proposed legislation, and I would like to know what your impression is as to the necessity of any substan-

tial reform or change in the existing banking conditions in this country.

Mr. HULBERT. I feel that the only necessity, about the one thing necessary to make our present system all that is needed, is some provision by which banks may, in a time of emergency, use their united credit. This bill provides for that very well, only it provides for a whole lot of other things besides which a good many of us wish were left out. If we could have the regional reserve banks simply as discount institutions dealing with banks and cut out these various other powers they have, which seem to us very objectionable, I think it is all that is necessary.

Senator O'GORMAN. That is all.

Senator NELSON. Would you not think the notes ought to be redeemable in gold?

Mr. HULBERT. By all means.

Senator NELSON. Or anything else?

Mr. HULBERT. In gold or lawful money? I do not like "or lawful money."

Senator NELSON. In lawful money. That would throw the burden on the Government again to redeem the lawful money?

Mr. HULBERT. Yes.

Senator NELSON. Do you not think the bill here—to give you an understanding of what I am driving at, the bill is ambiguous in this: It makes all those notes redeemable at those reserve banks and also at the Treasury Department?

Senator HULBERT. Yes.

Senator NELSON. There is no provision in the bill by which the Government could secure the gold for the redemption of the notes, is there?

Mr. HULBERT. I think not.

Senator NELSON. Would it not be wiser to have the banks deposit that 33⅓ per cent of the gold in the Treasury, each bank, that gold reserve for the redemption of its notes, and would not that relieve the Government from the necessity of providing the gold? Don't you think that each one of those 12 regional reserve banks could deposit their 33⅓ per cent in gold in the Treasury for the redemption of the notes? Would not that relieve the Government from the necessity of providing the gold?

Mr. HULBERT. I think it would, Senator. But I should think it would be necessary to have these notes redeemable at the reserve banks also, and they would have to have something there to redeem them with.

Senator NELSON. Yes; but they could be sent in through the bank to the Treasury.

Mr. HULBERT. I should think that under a plan of this kind redemption should be made very easy and very free. And it would seem to me that the notes ought to be redeemable at the reserve banks as well as at the Treasury.

Senator SHAFROTH. Would not that make each one of these reserve banks a competitor with the Government?

Mr. HULBERT. In buying gold?

Senator SHAFROTH. Yes.

Mr. HULBERT. I should think that the reserve banks ought to be, and probably would be the agents of the Government in purchasing

gold. They work pretty closely with the Treasury Department, as there are Treasury officials on the board.

Senator SHAFROTH. But you would have to have 12 separate and distinct places in addition to the Government.

Mr. HULBERT. Oh, yes. You mean, each of these people would be competing in the market and buying gold?

Senator SHAFROTH. Yes.

Mr. HULBERT. I think, as a practical proposition that the demand for gold for redemption purposes would largely fall on the New York reserve bank.

Senator SHAFROTH. Don't you believe that the fact that the national-bank notes are not redeemable in gold has relieved a great strain on the Treasury?

Mr. HULBERT. They are practically redeemable in gold, are they not?

Senator SHAFROTH. Well, no——

Mr. HULBERT. It takes a roundabout way.

Senator SHAFROTH. It takes a roundabout way, but is not that roundabout way the very thing that impedes it and helps to reduce the strain? Would not these notes, in the same manner, being redeemable by the Government alone at the subtreasury in New York——

Mr. HULBERT (interposing). It would be a little harder to get the gold.

Senator SHAFROTH. It would be a little harder to get, and would not that tend to stop the run if it were for any other purpose than legitimate foreign commerce?

Mr. HULBERT. Undoubtedly it would, but if we are going to have an ideal system of currency we ought to have redemption pretty easy, I think.

Senator SHAFROTH. That depends on what its object and purpose is. You know, at the Bank of France you can not get it——

Mr. HULBERT (interposing). But, Senator Shafroth, right there we have an object lesson. The Bank of France has carried, as you know, for a great many years the heaviest gold reserve in the world, practically, and it has been one of the strongest and best managed financial institutions in the world. But here within the last year they saw fit to exercise their privilege of refusing to pay gold, and are doing so to-day. They are paying nothing but silver. The effect is that the people of France have hoarded over $200,000,000 of gold. The people of Germany have done the same thing, and the people of Austria have done the same thing, and that is probably one great cause of the monetary stringency all over the world.

Senator SHAFROTH. The last report I saw of the Bank of France showed that the reserve was about 9 to 1 as to silver.

Mr. HULBERT. Yes.

Senator SHAFROTH. In favor of gold.

Mr. HULBERT. But they are not paying out any gold to-day.

Senator SHAFROTH. It may be. I understand you can get gold.

Senator NELSON. They have bimetallism in France, you know. Under the law they can redeem in either gold or silver.

Senator SHAFROTH. Certainly they can, and that seems to be to their advantage in not exceeding their gold supply.

Mr. HULBERT. It has worked so far, but it has not worked well under this present state of affairs.

Senator SHAFROTH. Don't you recognize this, that when you make these reserves in gold or lawful money and they are located throughout the entire country, at 12 different places, and the currency is presumed to stay within the district—because whenever it goes out of the district it is sent back there for redemption—that consequently any demand for foreign shipment is not likely to arise at any of these places, unless it be New York, Philadelphia, or New Orleans?

Mr. HULBERT. I think so.

Senator SHAFROTH. Keeping that currency in the interior, as it were, and not having it redeemable in gold, would not that have a tendency to loosen the gold market so that the United States Treasury could get plenty of gold and thereby supply legitimate demands for gold?

Mr. HULBERT. You mean by making it harder for people to get gold?

Senator SHAFROTH. Yes; I mean they have got to go and make their demand for United States notes, and after those are given them they have to send it down here to Washington.

Mr. HULBERT. The harder you can make it for a man to get his money the less likely he is to try to get it perhaps, but whether that is ideal or not——

Senator SHAFROTH. If the blanket of gold is not sufficient to go around and satisfy everybody, is not that one of the means that is considered a proper means for keeping and maintaining the gold reserve?

Mr. HULBERT. Yes; but I think the proper plan would be to try to carry a larger gold reserve.

Senator NELSON. What would you estimate would be the proper reserve?

Mr. HULBERT. I should say not less than 40 to 50 per cent.

Senator NELSON. Redeemable in gold on demand at all times?

Mr. HULBERT. Yes, sir.

Senator NELSON. At the regional banks and at the Treasury?

Mr. HULBERT. Yes, sir.

Senator SHAFROTH. Don't you think the declarations contained in this bill, that the Government shall at all times maintain the parity of the metals, gives it sufficient standing so it will never go to a discount as long as the Treasury——

Mr. HULBERT. I certainly do think so.

Senator SHAFROTH. Is it better to have it that way and let the bill stand as it is, which keeps the reserves in the districts in either gold or lawful money at the option of the district bank, or to have it purely as gold?

Mr. HULBERT. Well, the Congress, as you know, some years ago made this same declaration, that all kinds of money shall be kept at a parity, but they very wisely put a gold reserve aside for the greenbacks. And I think it is pretty difficult to keep up the equality and the standing of paper just on the declaration of the Government that it will maintain that paper at par, unless you know that somewhere there is an adequate metal reserve.

Senator SHAFROTH. When you have simply a demand drawn on one point, is it not much easier to retain that reserve there than in 12 other places?

Mr. HULBERT. Undoubtedly it is. The question in my mind is whether it ought to be easier.

Senator SHAFROTH. The easier it is the more certain it is the gold standard will be adhered to and pursued.

Mr. HULBERT. That is, admitting that possibly it could not be maintained if these notes were redeemed freely wherever the people want the gold.

Senator NELSON. As the bill reads now, these regional banks could keep all their reserve, all their demand money, in greenbacks or silver dollars.

Mr. HULBERT. Certainly.

Senator NELSON. And if anybody wanted gold on that currency they would have to go to Uncle Sam's Treasury?

Mr. HULBERT. They would have to go a long way.

Senator NELSON. Which would throw the whole burden on the Government of maintaining the parity instead of throwing it on the banks.

Mr. HULBERT. I would prefer to see it that way.

Senator HOLLIS. Do you know, Mr. Hulbert, any recognized financial authority who advocates redeeming in gold or lawful money?

Mr. HULBERT. I do not, unless you want to quote the Aldrich plan.

Senator SHAFROTH. Can not you quote the national banks that have been in existence for 40 years? They have been pretty successful, it seems to me.

The CHAIRMAN. The Chair ventures to remind the committee that Prof. Fisher was expected to be heard this morning——

Senator REED. I should like to ask a question of this witness.

The CHAIRMAN. Prof. Fisher will have to leave at 5.30, gentlemen.

Senator HOLLIS. We ought to have time enough to interrogate these witnesses.

The CHAIRMAN. That may be, but you can not have the time if the witness is not here, and he is going to leave, and will not return. The committee has the option.

Senator HOLLIS. But here is a witness who has a large amount of detailed information and who is informing the committee of things they ought to know, and it does not seem wise that, having come all the way from Chicago, he should not be given time enough to answer the questions the committee desire to ask.

The CHAIRMAN. The Chair has no further observations to make on that question.

Senator REED. Could not the present witness wait?

Mr. HULBERT. Well, I should feel bound to if the committee ask me to, but it would be very inconvenient. I hoped to get away last night, because I had an appointment at 2.30 yesterday.

Senator REED. It is rather embarrassing to ask a man to wait. It is equally embarrassing to interfere with some other witness who is to follow. But I think we ought to have the opportunity to ask whatever questions we desire of these witnesses.

Mr. HULBERT. I do not know what to say. Certainly, if the committee ask me to stay, I will go to any extent.

Senator NELSON. I for one would be glad.

Mr. HULBERT. It would be exceedingly inconvenient for me to do so. I should feel bound to stay if the committee asked me to.

The CHAIRMAN. What time does your train leave to-night?

Mr. HULBERT. 6.45.

The CHAIRMAN. Prof. Fisher's train leaves at 5.30, and there would still be time.

Mr. HULBERT. I would be glad to stay until train time.

Senator O'GORMAN. Do you think it would be fair to Prof. Fisher to put him on at this late hour, allowing him about two hours to make a statement and subject himself to the inquiries that will be addressed to him by members of the committee?

Senator SHAFROTH. If you do not do it now, I understand you can not do it at all.

Senator BRISTOW. Can not he come back?

The CHAIRMAN. He advised me that he would not be able to be here except to-day. I am simply giving you the information I have at this time.

Senator POMERENE. I am going to renew the suggestion I have made several times, that when Prof. Fisher goes on the stand he be permitted to make his statement in full, and that after he shall have finished we then take up the matter of cross-examination.

The CHAIRMAN. Do you make a motion to that effect?

Senator POMERENE. I do.

Senator SHAFROTH. I second the motion.

Senator BRISTOW. I understand that Mr. Hulbert has done exactly that thing and now we are cut off from pursuing the line of inquiry we desired to make because of lack of time.

Senator POMERENE. My motion did not have reference to Mr. Hulbert. I assumed that he was going to give way to Prof. Fisher.

Mr. HULBERT. May I ask, Mr. Chairman, how long these hearings are likely to last?

The CHAIRMAN. That is a question that the Chair is not able to answer.

Mr. HULBERT. If the committee care to have me and thought it was worth while, I should be glad to come later.

Senator NELSON. Would you not rather finish to-morrow?

Mr. HULBERT. No.

The CHAIRMAN. The motion has been made——

Senator O'GORMAN. If that motion is going to be put, I will ask for an executive session.

Senator SHAFROTH. We will lose so much time I will withdraw the motion.

Prof. FISHER. Mr. Chairman, I feel that my testimony will not be nearly so valuable as the testimony to which you are now listening, and I think it would be better for my testimony to be presented in abbreviated form and that Mr. Hulbert be recalled.

Senator BRISTOW. Professor Fisher, could you come back next week?

Prof. FISHER. Not very conveniently, but I feel as Mr. Hulbert does. I do not think my testimony is of any substantial value, and I think I can give it in a short time.

Senator O'GORMAN. We think your evidence would be very valuable. Will you be here to-morrow?

Prof. FISHER. No.

Senator NELSON. I move we hear Prof. Fisher, and in connection with that that we ask Mr. Hulbert to remain over and stay with us until we are through with Prof. Fisher.

The CHAIRMAN. Is that the pleasure of the committee?

Senator O'GORMAN. Everybody agrees to that.

The CHAIRMAN. If there is no objection that will be ordered.

The CHAIRMAN. Mr. Francis C. Howell, president of the Camden National Bank, of Camden, N. J., has presented me with the following table showing that certain country banks referred to there have certain noninterest-bearing deposits and then certain interest-bearing deposits which are in the nature of savings deposits, giving the percentages in each case and showing how these moneys are invested, a large part of them being invested in local loans, and a considerable part in bonds. He strongly represents that if these quasi savings deposits should be compelled to be invested in classified securities under any savings-bank plan, instead of being available for local loans and the upbuilding of the local community by local loans, it would be seriously injurious to the service of the local community where this money is made and saved, and to the banks themselves, and, therefore, he desires the committee to carefully consider the interests of the country banks in this particular, and not put into the bill (see p. 47, lines 18–24) anything which would compel these banks to invest their so-called savings deposits or interest-bearing deposits in any particular kind of security, but that this matter should be left absolutely within the discretion of the bank itself. The matter is of such importance that I ask that it be placed in the record together with the following table:

Report to comptroller, Aug. 9, 1913.

Banks.	Noninterest-bearing deposits.	Per-cent-age.	Interest deposits, including certificates.	Per-cent-age.	Loans, mostly local.	Bonds, probably a small percentage of which would be available.	Percentage of local bonds, and bonds necessary to be sold and called if present currency bill is adopted.
Millville, N. J	$316,201.65	31	$719,832.53	69	$635,346.85	$606,862.20	58
Port Norris, N. J	49,384.36	40	75,862.00	60	93,197.80	33,396.25	60
Farmers & Mechanics, Bridgeton, N. J	148,112.96	31	328,125.49	69	451,652.70	122,770.00	57
Cumberland National, Bridgeton, N. J	675,151.43	40	1,019,149.39	60	1,389,914.91	641,244.06	50
Bridgeton National	512,324.24	40	786,469.19	60	1,149,803.92	250,820.00	60
Mechanics', Millville, N. J	135,453.92	38	220,146.16	62	391,686.03	74,200.00	47
Vineland National	297,988.00	38	473,300.00	62	528,940.00	259,092.00	60
Camden (N. J.) National	843,831.00	42	1,181,887.00	58	1,386,395.00	383,206.00	....
Total	2,973,477.00	[1] 37	4,804,771.76	[1] 62	6,026,937.21	2,371,582.51	[1] 56

[1] Average.

STATEMENT OF PROF. IRVING FISHER, OF YALE UNIVERSITY, HARTFORD, CONN.

Prof. FISHER. Mr. Chairman and gentlemen of the committee, I want to repeat what I have just said. I am not an expert on the subject, as Mr. Hulbert is. I am not a practical banker, and not

even a student of banking organization. So far as I have studied banking, it has been in connection with the currency problem and the circulation of money. It was along those lines that I wished particularly to speak.

A good deal has been said this afternoon in regard to inflation and contraction and the effects and evils, and the way of preventing them. I want to begin, however, by saying that I am very much in favor of passing this bill. I should be in favor of it even if no amendments were made whatever, although I think that would be extremely unfortunate, for I think the bill can be very much improved by adopting the suggestions of Mr. Hulbert and of others who have appeared before you.

I think that a bill even worse than this would be superior to the present situation. I was in favor of the bill offered by the Monetary Commission, but I am much more in favor of the bill that is now before you. I assume that is substantially the bill that has recently passed the House of Representatives, that being the one I read last.

Now, the greatest problem, it seems to me—the greatest defect in our present system—is the inelasticity of our banking reserves; or, to put it another way, the inelasticity of the deposits which are our chief currency in this country, based on those reserves. As it is now when the bank, which is required to keep 25 per cent reserve, gets down to 25 per cent it is required by law to stop discounting. As a matter of fact, the law is often violated, and the violation permitted because the law is altogether too drastic. There is this rigid limit of 25 per cent which can not be transcended theoretically at all; but it has to be, as Mr. Hulbert has just said, and therefore it is and its violation is winked at.

Now, if this bill is passed, by counting as the reserve of an ordinary bank its deposits in the Federal reserve bank, you meet the situation. It can be met, however, in another way, in addition—not in substitution. And I was going to suggest that I very much hoped this bill would pass in some form at this session. It seems to me it would be a very unfortunate thing to have it passed over as unfinished business and left to the next session. But if it should turn out as I have heard it hinted, that it is going over and that it will not be passed at this session, then I should most earnestly recommend that an emergency measure be passed to take the place of the Aldrich-Vreeland bill.

The Aldrich-Vreeland Act is not very practicable, for several reasons. One is that the graduated tax is graduated on a wrong principle. When a man borrows money at 5 per cent he does not wish to have the rate raised on him if he keeps his money more than a month. According to the Aldrich-Vreeland Act, if he keeps it over a month the tax is raised to 6 per cent; then 7, 8, 9, and 10, on the same money.

If, instead of that, we had a graduation by which a certain amount of loans could be made at 5 per cent, a certain additional amount at 6 per cent, 7 per cent, etc., the first amount would remain at 5 per cent, and it would be much more likely to be availed of. I think that is one reason why the Aldrich-Vreeland Act is not availed of. I think the chief reason is that in order to avail one's self of it the bank has to advertise that it is in trouble.

The suggestion I am going to make has probably been made to you more than once. I simply want to emphasize it. It would not have either of these two difficulties. It seems to me we ought to legalize what is now actually allowed—permit, under penalty, a reserve below 25 per cent. When a bank gets down to 25 per cent, that, instead of being a rigid limit, should be an elastic limit. It should be allowed to go below that, down to 20 per cent, on penalty of a tax, down to 15 per cent on penalty of a heavier tax, and so on down to zero. There is no reason why all the money should not be used if it becomes absolutely necessary.

A life preserver ought not to be nailed to the deck so you can not use it. Our present system is very much like making a rule that on shipboard there must be at least 25 life preservers nailed to the deck, so that they will always be there. They would not be of any use, and that is the case of our 25 per cent reserve; it is of no use.

So it seems to me that if instead of having a rigid limit you should substitute an elastic limit, you can let the reserve go down indefinitely. And no bank, soundly managed, will let it stay below 25 per cent very long, because it can not stand the tax. Probably the proper way of graduating this tax would be on the basis of the deposits rather than on the basis of the reserve. To say that a reserve must be 25 per cent and no lower is the same thing, of course, as to say that deposits must be four times the reserve and no higher. And if you make the graduated tax on the basis of the deposits in terms of the reserves, it would amount to the same thing as if you made it on the basis of the reserves. That is, any excess of the deposits above the fourfold limit should be penalized. Then if the bank's requirements are 15 per cent, it would be arranged that they would be penalized whenever the deposits were above 6⅔, and they would be penalized in the same ratio dollar for dollar for all the banks that have the 25 per cent reserve. Probably that would be the way to graduate it.

Now, coming back to the bill, it seems to me that if it is passed it ought to be amended in some particulars. I shall not go into the details, because, as I have already said, you have had much wiser counsel on that than I could give you. I have looked over the recommendations of the banks, which seemed to me to be very carefully worked out, and with the majority of them I heartily agree and hope they will be incorporated in the bill.

Senator O'Gorman. You speak of the bankers at their conference in Chicago?

Prof. Fisher. At their conference in Chicago; yes, sir.

If I thought it worth while I would go through this in detail, but that would take a good deal of valuable time. There are one or two points, however, I should like to emphasize, which, it seems to me, ought to be adopted in the bill when it is passed. In the first place, in order to avoid even the suspicion of a sudden contraction due to the calling of loans, etc., as was claimed—I rather judge without very much foundation—by some of the witnesses yesterday, it seems to me that the substitution of the new system for the old should take place more gradually than is provided for in the bill, so that the transfer of the deposits from the reserve cities and central reserve cities to the new system should be by gradual stages.

Then as to getting the bankers into it, it seems to me a bid should be made to make this bill at least palatable to the great majority of the bankers, not to force it down their throats or run the risk of their getting out of it by their becoming State banks. For that reason I would accept their terms to a large extent; at any rate, to the extent of giving them dividends out of the bank, and after a limited time giving them a larger amount.

In regard to the reserve on notes of 33⅓ per cent, it seems to me that is too low; that to raise it would be an advantage, and particularly an advantage in order to avert the possibility of inflation. Moreover it seems to me that there should be a graduated tax, as is recommended by the bankers; and, if I am correct in my recollection, there is nothing in the bill at present to correspond to that. The bankers recommend that if the reserve falls below 40 per cent it should be allowed to fall below 40 per cent but should be penalized—that is, down to 37½ per cent, and beyond that penalize more heavily, etc.; I think, perhaps, a tax of one-half per cent for the first, and an additional tax for the second.

There are some more radical things I would like to see in the bill, which are much more fundamental and which it seems to me ought to be carefully considered. In all this discussion very little has been said about the relation of the banking organization to the currency system. Fundamentally we are on a gold basis, but we have had a good many ifs and buts about it, and the result is that the business world, particularly abroad, have in the back of their heads a feeling that we have some unsound spots—and we have. We have several unsound spots and they are bound up with this rigidity or inelasticity that we are suffering from. We have an inelastic bank-note system, because it is tied up with our Government bonds. There is nothing unsound, however, in that.

We have an inelastic volume of silver certificates, because that is based on silver purchases that have been completed. That is more or less unsound.

Then the unsoundest spot of all is the greenbacks, of which we have $346,000,000 out, the residue of the inflation of the Civil War, and which are compulsorily kept in circulation by the act of May 31, 1878, which, it seems to me, ought to be repealed in connection with your measure.

According to that act this money must be put back in circulation. As soon as a greenback is redeemed it must be reissued. It is very much like saying that as soon as a man gets out of debt he must get in debt again. It is not like real redemption. And I have heard men in the Treasury of the United States say they thought that if this were brought before a court it would be decided we were not really redeeming the greenbacks to-day. According to this law it must be done.

Of course, ordinarily it works smoothly, and it may be we will never get into trouble with it again, but we did get into trouble with it in 1893, and it had a great deal to do with the crisis of 1893, when, as President Higgins said, an endless chain of greenbacks ran through the Treasury pulling out gold for export.

Now, if the result of passing a currency bill such as this be—and without certain amendments it seems to me it may be—to inflate

the currency of the United States, that is exactly what would happen again. We would find inflation, a rise of prices in this country, a tendency to export gold, and that gold would be taken from our hoard of gold in the Government vaults, and that gold would be taken out, as it has been taken out in the past, by the greenbacks.

But it is not because that may happen that it seems to me the greenbacks ought to be more truly redeemed; it is because of the name of the thing. It is because that soft spot in our currency really gives a flavor of greenbackism, inflationism, to the situation; and that is one reason why the Britisher does not give us the credit he would otherwise.

Now, we want to understand well that, with financiers like those in Great Britain, France, and Germany, it would help if we eliminated that provision by which greenbacks must be reissued, and say that they "may" be reissued. I am not advocating that they must be retired immediately; that is another proposition entirely. I am advocating that the gold we have should be behind them in the true sense of the word, so that we would be absolutely on the gold standard.

It seems to me, if I may say so, that it would be good politics for the Democratic Congress to do this, because the Democratic Party has been accused of being an inflation party. But, now that greenbackism is really dead, that inflationism, even in the silver form, is really dead, why not admit the fact and bury it, and let the world know it.

Therefore, I quite agree with what Mr. Hulbert suggested when he said that the term "lawful money" should be omitted, both in specifying the kind of reserve that the Federal reserve banks should keep and the redemption of the United States notes—and particularly in the redemption of the United States notes. It seems to me it should be unequivocally "gold"; not "gold or lawful money." Of course, the greenbacks are supposed to be redeemable in gold, but they must be reissued. The two expressions appear to be very much the same thing, and yet not quite the same. If it is the same, why not say just "gold," instead of "gold or lawful money"? If it is not the same thing, then there must be something the matter with it.

Then I think the power of the reserve board should be reduced. I think the fears of the bankers in regard to the abuse of that power are probably greatly exaggerated, but nevertheless the fact that those fears exist is one reason why these powers should be reduced. One of the powers is that the Federal reserve board shall have the right to compel one of these banks to rediscount for another, and shall also have the right to impose the rate at which this rediscount shall take place. There is a double compulsion which is hinted at; probably it would never be enforced. Therefore it seems to me it would better not be put in until, because of an abuse of power, we find it necessary. Just as the Interstate Commerce Commission developed its powers gradually, starting out with more or less statistical and clerical duties, it seems to me this Federal reserve board ought to grow in power as the necessity for the exercise of power develops with experience.

Let us assume the bankers will not abuse their power in a way that will require the conferring of these enormous powers on a Federal reserve board. But, if they ever do, then we can make supplementary legislation. I do not believe they would. I do not believe it would

ever be necessary, and it seems to me it would be extremely inadvisable to exercise such a power as to compel one bank to rediscount for another. That is a matter that can be left to supply and demand, and I believe that if it is left to supply and demand it would be more efficiently worked out.

I think that, automatically, if you have a dozen of these banks, what will happen will be that the bank in New York or Chicago—two or three banks, and probably one—will become the central bank and will do rediscounting for the others. The New York bank would naturally be the one toward which these bills would gravitate, and we would have a rediscount apparatus developed automatically without the necessity of a Federal reserve board saying which bank should rediscount for which other bank.

Also they would feel more free to raise the rate of interest. If I were sure that the policy of the Federal reserve board would be always unbiased, uninfluenced by popular prejudices on the subject of the rate of interest, I would be much more in favor of allowing them to regulate the rate of interest; but it seems to me the rate of interest ought to be regulated by the banks themselves. Very often the rate of interest ought to be put up when the popular cry is that it should be put down.

There is, as you all know, a great prejudice against interest; there always has been, for thousands of years. You will find the prejudice expressed in the Bible. You will find that during the Middle Ages the church was constantly legislating against usury, which in those days meant interest. And you will find the prejudice surviving to-day among the socialists, who say that interest ought to be abolished.

On the contrary, interest is an honest price, as any other price is, and sometimes it ought to be high. It is sometimes good for the welfare of the community that it should be high, because it puts the brakes on business. And if the rate of interest is unduly low the tendency is toward expansion, and then you have inflation; and I believe most sincerely that all crises, all panics, have been bound up with the tardy rise of the rate of interest. The rate of interest has not risen promptly enough, and the result is inflation has taken place, and then at the end the rate of interest has gone up with a jump, and it has meant the ruin of people who could not then renew their loans at these high rates. Either the rate jumps up beyond what they can pay or, what now happens, the bank refuses to loan at all.

Now, possibly a much better apparatus could be arranged by which a business man is always sure of getting a loan if he needs it, even if he has to pay a high rate of interest, than having a system under which ordinarily you have a low rate of interest but sometimes can not loan at all. The Bank of England has the courage, in the interest of public policy, to raise the rate as well as lower the rate. It even raises the rate beyond the market rate in London, and thereby safeguards the gold reserve of the bank to the country. It seems to me these regional reserve banks should be allowed to do this themselves.

There is one other suggestion I wanted to make, which is of a somewhat radical nature, but it is not original with me. I got it from Mr. Barron, the proprietor of the Boston News Bureau, who has made quite a study of these problems. He calls attention to the

fact that we have in this Government the largest gold reserve in the world. We have over a billion dollars of gold in one hoard, and yet we are making no use of it. Theoretically it circulates in the form of gold certificates, but that merely means that we have got for those gold certificates, or paper, 100 per cent reserve.

I am not advocating that the Government should substitute for these gold certificates greenbacks or notes which would reduce the reserve to a smaller percentage, or increase the notes to a larger ratio than a 1 to 1 ratio, for that would mean inflation and be dangerous from many points of view. Under ordinary conditions, I think, the present situation should be maintained. But in times of emergency it would be a great advantage if this gold could be released in order to safeguard the stability of the monetary system of the country, and that could be accomplished if these yellow backs, or gold certificates, could be converted temporarily into greenbacks or United States notes, so that the gold behind them could, instead of being 100 per cent reserve, be a lower per cent; that is, the modus operandi would be like this: A Federal reserve bank would take to the Treasury in time of distress a certain number of these yellow backs, or gold certificates, virtually redeem them in gold, hand the gold back to the Government for notes—either the kind specified in this act, or greenbacks, or a new kind of note, gold notes, or whatever you might call them, but not certificates. Then the Government could lend, under penalty of a higher tax, to the Federal reserve banks an additional amount of the same notes, and still have—for instance, if they issued the same amount they could still have 100 per cent reserve. If $100,000,000 of yellow backs were converted into $100,000,000 of greenbacks, you could issue another $100,000,000 of greenbacks as emergency currency for a high rate of interest, which would tide over a stringent period, and they would come back automatically on account of the tax.

I do not know whether I have made that suggestion clear or not, but it would put this Government in an impregnable position by utilizing the biggest hoard of gold in the world, and make it, if it were properly and scientifically arranged, so that the stability of the financial system of this country could never be called in question, either by our citizens or by anyone in a foreign country.

I want, finally, as an incidental point, to second another point that Mr. Hulbert emphasized, the importance of distinguishing between the deposits subject to check—demand deposits—and time deposits. And in that connection I want to say, as a student of statistics, that I hope the members of this committee will see to it that the statistics of deposits subject to check are not discontinued, as I understand there is some danger they may be. Those statistics only started with the National Monetary Commission in 1909. Before that we never had any statistics of deposits subject to check in this country. We had statistics of individual deposits; that is, including both the time deposits and the demand deposits, but we did not have any statistics of the demand deposits alone. Now, we have those and it seems to me we ought to keep them. I really think they are more valuable than statistics of money in circulation, because the deposits are really a most important money. Ninety-two per cent, if my calculations are correct, of the exchange work done in this country is done through

these deposits subject to check—done by means of checks instead of by money. I think we ought to keep track of that as well as of the money.

I want to say I believe there is a danger of inflation from these deposits, from the use of checks, which is just as real as the danger of inflation by money. In fact, I am very strongly of the opinion, based on considerable study, that the present high cost of living is largely ascribable to this check inflation which is going on all over the world. It is not confined to this country; deposits are increasing by leaps and bounds all over the world, increasing 10 per cent in this country, 10 per cent in Canada and in Germany; they are increasing about 3 per cent in England. They are increasing daily all over the world. I believe the rise in prices is due about half to that alone, and I hope this bill will try in some way to avoid the possibility of inflation. I have not studied enough to calculate exactly how much inflation would be possible, but I imagine something like a half billion of inflation would be possible under this bill.

I think it would be a great advantage if we could couple the issuance of this new currency with a provisoin for the retirement of the old currency, giving the Secretary of the Treasury authority to retire greenbacks and, if necessary, silver certificates as fast as is necessary to prevent inflation of the currency. That is, there will be a gradual retirement under this bill of bank notes anyway, but there is danger that the new notes will be issued more rapidly than the bank notes are retired.

There is no particular relation, as I understand it, by which the two are coupled with each other. It would be an advantage if there could be such a coupling, so that one would go out as fast as the other came in, so that there would be a substitution. What we want is an elastic currency, not an inflated currency.

Gentlemen, I thank you for your attention.

Senator NELSON. If I understand you correctly, you first of all insist on retiring the greenbacks?

Prof. FISHER. No, sir. I am glad you asked that question, because I tried very hard to avoid giving that impression. I would not insist on the payment of the $346,000,000, by which they would be entirely extinguished, but I would take away the present requirement by which they must be reissued, allowing them to be reissued, but not compelling them to be reissued; so that the Treasurer could retire them gradually if he choose.

Senator NELSON. Tell us what in principle is the difference in value, as paper money, between greenbacks backed by $150,000,000 of gold reserve, and these regional reserve notes backed by 33⅓ per cent. Why is one better than the other?

Prof. FISHER. The difference is——

Senator NELSON (interposing). Why is one safer than the other?

Prof. FISHER. The differences are two. Of course, one is purely a Government issue and the other is not; that is one difference. But the difference that I was laying emphasis on is the inelasticity of the greenbacks. The greenbacks are just the same in volume as they were May 31, 1878, but these notes that you are going to issue will fluctuate; they will change with the balance of trade.

Senator NELSON. But there is the $346,000,000 of good paper money that is floated with $150,000,000 of gold.

Prof. FISHER. They are perfectly safe, so far as their parity with gold is concerned. The only danger of disparity would be in the very remote contingency that we should so inflate the currency as to cause gold exports—and after all the gold is exported and you could not redeem the greenbacks in gold—then, of course, they would go to a discount. That was what nearly happened in the summer of 1893, and would have happened if it had not been for the repeal of the silver purchase clause, which was brought about by President Cleveland.

Senator NELSON. This bill provides for the issuance of these new notes as Government obligations, instead of the obligations of the regional banks. What have you to say on that subject?

Prof. FISHER. I think that is more nominal then real, Senator. It seems to me these are nearly bank notes in principle; the credit of the Government is behind them, so they are indorsed by the Government.

Senator NELSON. It is a promise of the Government in form?

Prof. FISHER. It is the promise of an indorsor but not of a drawer, it seems to me.

Senator NELSON. While it is the direct promise of the Government, you say the Government is simply an indorser?

Prof. FISHER. Perhaps, legally, what I said would not stand water.

Senator NELSON. What do you say on this question of requiring the notes to be redeemable in gold both at the Treasury and in the various regional banks—how would you supply the gold reserve? What method would you employ to supply the Government with gold for redemption of these notes if they are to be redeemable by the Treasury of the United States?

Prof. FISHER. By appropriating for that purpose and possibly by the method that was suggested in a bill that Senator Owen drew, I think, sometime ago, by which a certain amount of the certificates, as they passed through the Treasury, should be eliminated, and instead of being reissued there should be greenbacks virtually issued for them.

Senator NELSON. Greenbacks should be issued for the gold; is that your theory?

Prof. FISHER. So as to release that gold and add that to the $150,000,000.

Senator NELSON. Yes; but if one of these certificates is presented to the Treasury you would have the Government issue in place of it a greenback?

Prof. FISHER. I do not say that they——

Senator NELSON (interposing). How could you enlarge the currency, then? You would be issuing one kind of paper money—Government greenbacks—instead of another kind of paper Government money, which circulates as money—the gold certificates. How would it enlarge our currency?

Prof. FISHER. It would not, but their enlargement comes from this bill, as it reads, and it seems to me you want to mitigate that enlargement rather than aggravate it, and anything that would tie up more gold reserve would have that effect. That is one reason, and I would like to see the gold reserve increased from 33 to 50 per cent.

Senator NELSON. How would you tie it up? You have now dollar for dollar in those gold certificates?

Prof. FISHER. Yes.

Senator NELSON. If those certificates are redeemed, the gold is left with the Treasurer and you have a greenback issued in place of it?

Prof. FISHER. I understand your question now.

Senator NELSON. The volume of the currency did not increase a bit?

Prof. FISHER. You are asking what I recommended for an emergency. In an emergency if that conversion were made and you do that according to Mr. Barron's idea, if that is what you are inquiring about——

Senator NELSON (interposing). No; that is your plan, as I gathered from your remarks.

Prof. FISHER. Yes; I think it would be a good plan. There would be regional banks, which could on the deposit of suitable securities borrow additional greenbacks; that would be new paper money; that is, for, say, $100,000,000 of these yellow backs converted into greenbacks. That would not enlarge the currency, as you see. The currency would be exactly what it was with the exception that it would be green instead of yellow; that there would be then $100,000,000 released, as gold.

Senator NELSON. But under existing law that would only be available for the redemption of greenbacks; it would not be available for the redemption of these new notes?

Prof. FISHER. Perhaps I ought not to have said "greenbacks," but a new form of note that would be authorized which would take the place of these yellowbacks.

Senator NELSON. It would be a note different, then, from these notes contemplated in the bill, would it not?

Prof. FISHER. No; I think it could be included in the same category. You could make them different and they could be just the same, and the banks which made this operation would have the privilege of borrowing an equal amount of new greenbacks as an emergency. It is only in case of an emergency that this suggestion would be operative.

Senator NELSON. What is the vice of our present system that needs more than anything else a remedy?

Prof. FISHER. The one that I emphasized first, it seems to me, is the worst vice—the inelasticity of our bank reserves or our bank deposits.

Senator NELSON. You seemed to imply in your statement that there was a great urgency for the passage of this bill. We have lived under this currency some 47 or 48 years and got along fairly well. We have not to-day much more panics or losses than other countries have had. Now you insist that there is an urgent demand at this present time for a change in our banking and currency legislation. What makes you think there is such an urgency? On what do you predicate it?

Prof. FISHER. I did not mean, Senator, simply that there is an urgency now. I think there has been a need for a great many years. I do not think our present banking system is a good one. I was

very much surprised to hear Mr. Hulbert say that it was one of the best in the world. I think it is one of the worst in the world.

Senator NELSON. In what way is it the worst?

Prof. FISHER. The inelasticity of our reserves.

Senator POMERENE. How shall we decide between these two experts?

Prof. FISHER. I have already told you that as far as I am concerned, he is the expert, but I am privileged to have my own view in the matter. In the inelasticity of our bank reserves, it seems to me, is the very great difficulty as far as panics are concerned.

Senator NELSON. Are you not confusing it there? It is not the inelasticity; it is the inelasticity of our bank notes, because they are based on bonds that secure currency?

Prof. FISHER. That is another story. I was attempting to answer your question as to what I thought was the worst feature of our present situation.

Senator NELSON. Yes.

Prof. FISHER. The feature you are speaking of is bad, but I do not think it is the worst. It seems to me that the inelasticity of our bank reserves—by which I mean bank reserves which have come down to the legal requirements so as to stop business and precipitate a crisis at the very moment we need reserves there. That seems to me the very worst situation, and therefore the thing we need most of all and which seems to me could be passed with this bill or before this bill would be an elastic limit instead of an inelastic limit for that 25 per cent legal reserve.

Senator NELSON. That principle is still retained in this bill but a less quantity.

Prof. FISHER. I do not think that principle is retained in this bill, because if this bill was passed, while it is true the bank must maintain the fixed reserves and not get below it, it can count as reserves deposits with the regional bank association.

Senator REED. I know.

Prof. FISHER. And that gives it really more funds; that gives it elasticity.

Senator NELSON. They can count that now as they can with banks in reserve cities or in central reserve cities. Is not that the present system? A bank in a reserve city is required to maintain the reserve of 25 per cent, and 12½ per cent of that money may be money in a central reserve bank?

Prof. FISHER. Yes.

Senator NELSON. This changes the system simply by reducing the amount to 18 per cent and leaving one part of it with the bank in its own vault and the other part of it with the regional reserve bank. The principle is still maintained. The only difference is the amount of the two classes—that is, in the reserve bank and in the vaults of the bank are changes, and then the money in the reserve bank pays no interest, as they do now? Is not that the difference?

Prof. FISHER. That is the difference. I was under the impression that there was another difference, but in any case it seems to me that it would be an advantage to allow this elastic limit that I was speaking of by penalizing the bank when its reserve was below the percentage. I regard that as really the cardinal reform.

Senator NELSON. I will differ with you in one point. I think one value of this bill—and to my mind it is the most important—is the fact that no interest is paid on these reserves in the reserve banks. Do you not think that is a valuable requirement?

Senator NELSON. Do you not think that that is of value?

Prof. FISHER. I was not suggesting interest should be paid on these reserves.

Senator NELSON. Oh, but you know, do you not, that that is of value?

Prof. FISHER. I had not given it enough thought to answer your question.

Senator NELSON. Do you not think that the vice of our former system was this, that in times of opulence, when our interior and country banks had an abundance of money, for the sake of getting the 2 per cent interest they would send it down to the big banks in New York at a season of the year when even among them there was not a tense call for money, not for commercial purposes, and the New York banks, in order to pay the 2 per cent interest, would invest that money in call loans on stock securities?

Prof. FISHER. Yes, sir.

Senator NELSON. Do you not think that was one of the vices of the reserve system as disclosed by the panic of 1907?

Prof. FISHER. I do, most emphatically; and I think that one advantage of this bill would be to substitute a new kind of banking on acceptances instead of banking on collateral securities.

Senator NELSON. I think I have had my share of questions. I will yield to the other members of the committee.

Senator POMERENE. They are very instructive, sir.

Senator NELSON. If the committee will allow me—this is kind of a free conference, like a class meeting, you might say—I would like to ask this: It has always occurred to me, Professor, that the great vice of our present reserve system was not so much what they called the pyramiding of reserves as the fact that these big banks in New York and Chicago, more particularly in New York, held the inducement out that they would pay 2 per cent, rain or shine, on the deposits of country banks. The country banks, when there was a demand for money in their immediate neighborhood, would not send the money on to New York, but when they got a surplus of money, for the sake of getting that 2 per cent interest, they would load up the New York banks, and the New York banks not being able at the time when they got all this surplusage of money from the country to use it in the channels of commerce and trade—I mean the legitimate purposes of commerce—would do this: They would invest it in call loans secured by stock collaterals; and did not the panic of 1907 disclose a vast amount of loans—stock-collateral loans—and were not such loans, under such circumstances as that panic, anything but liquid loans?

Prof. FISHER. Undoubtedly you are right, Senator; and I think that is a point of very great importance.

Senator NELSON. Do you remember, Professor, that a committee of the New York Stock Exchange, after the panic of 1873, what we commonly call the Jay Cooke failure, recommended as one of the chief remedies the abandonment of the payment of interest on deposit in country banks, and that because a few of the New York banks would

not agree to it, the plan was abandoned? The vice, as I said a moment ago, of this reserve proposition, to my mind, is the fact that these reserve banks pay no interest on the reserves, and it will eliminate all temptation for the banks to pile up money in these reserve banks for the purpose of getting interest, instead of keeping it at home for the use of their home customers.

Prof. FISHER. Yes, sir.

Senator NELSON. That is all, Mr. Chairman.

Senator SHAFROTH. Is it not a fact that there is no prohibition upon the New York banker paying still his 2 per cent interest on money that may be deposited by a country bank, and loan that, and continue the policy of sending to New York most of the money, instead of putting it into the reserve banks?

Prof. FISHER. It can not be counted as reserve. If you substitute the new system for the old, it will not be possible to use the old system, for the reason that unless you modify your bill——

Senator SHAFROTH. Of course the reserve money has got to be there; but the question in my mind, in answer to Senator Nelson's, was that no more money would be there for them than the absolute amount of reserve in the regional bank, because they do not get any interest on it, and the New York banks are willing to pay interest on it, and it will go where there is a profit.

Prof. FISHER. I have no doubt you are right; that there will be a certain amount of it left.

Senator SHAFROTH. Do you regard it a wise policy to take up the national bank currency by means of this emergency currency to be issued under this bill, to retire it?

Prof. FISHER. Yes, sir.

Senator SHAFROTH. Do you think that that ought to be retired by a permanent currency, such as the currency as you suggested here, in converting the gold deposit fund into a gold redemption fund?

Prof. FISHER. But is not this a permanent currency which is suggested in the bill?

Senator SHAFROTH. It has got to be renewed every 90 days, has it not?

Prof. FISHER. Not the currency.

Senator SHAFROTH. Well, what is back of the currency has got to be renewed every 90 days?

Prof. FISHER. Yes, sir.

Senator SHAFROTH. You do not regard this as an emergency currency, then, that is to be issued here?

Prof. FISHER. No.

Senator SHAFROTH. You consider it a stable currency?

Prof. FISHER. Yes, sir; an elastic currency; and the fact that it has a liquid basis for it seems to me gives it greater elasticity. Our present bank notes, as Senator Nelson was saying, are inelastic because they are bound up with the national debt. We can not reduce it except as the Government pays its debt, and we can not increase it unless the Government gets in debt further.

Senator SHAFROTH. Is there any certainty, after national bank currency has been retired, that the banks will go on and discount their paper and get new currency?

Prof. FISHER. I should think it was pretty certain.

Senator SHAFROTH. Suppose they should conclude not to do it; there would be a contraction of the currency to the extent of $740,000,000, would there not?

Prof. FISHER. In case the bank notes were taken away. It seems to me that is one reason the two ought to be coupled together.

Senator SHAFROTH. You think that this redemption of these bank notes, these notes that are issued by the Government under this system, should be payable in gold alone, and not in gold and lawful money?

Prof. FISHER. I do. I include gold certificates as equivalent to gold. I say that the regional bank could use gold certificates and the Government gold.

Senator SHAFROTH. Do you recognize that if you make each one of these regional banks redeem these notes in gold it will make competition among 12 new sources for the accumulation of gold?

Prof. FISHER. Not if we have gold certificates.

Senator SHAFROTH. Gold certificates are the same as gold. They represent gold.

Prof. FISHER. But the dissipation of the gold will not care for the gold certificates scattered around the country or the gold concentrated in Washington.

Senator SHAFROTH. But the question is whether there is enough gold, whether represented in metal or in certificates, and whether there is a strain on that gold reserve or gold redemption fund. If you have 12 distinct points in the United States, each one of which is required to keep gold or gold certificates for the purpose of redemption of their notes outstanding, and then requiring the Government also to keep gold at the same time, you are overlapping the matters so that it will take a greater quantity of gold or gold certificates to do that work of redemption.

Prof. FISHER. I think that would be an advantage, because it would mitigate the tendency that is inevitable and going on all the time, and there is some danger that in this bill the inflation——

Senator SHAFROTH (interposing). Then, your theory is that the tendency ought to be toward contraction?

Prof. FISHER. No, sir; I think contraction is just as bad as inflation. I think we need to keep on an even keel as near as we can.

Senator SHAFROTH. Do you not recognize that when notes of the Government are payable in gold and the notes of these regional reserve banks are payable in lawful money, that you can do the same quantity of redeeming and have them redeemed in gold or redeemable in gold with a very much less gold reserve than you could if you had the gold redeemed in each one of the banks?

Prof. FISHER. Yes; but that would be an objection and not an excellence, in my mind, just for the reason mentioned.

Senator SHAFROTH. It would be because you think it would tend toward inflation?

Prof. FISHER. Yes.

Senator SHAFROTH. You have got those 12 reserve banks now competing in the market for gold, and we do not seem to have too much gold.

Prof. FISHER. I think we have.

Senator SHAFROTH. You think we have?

Prof. FISHER. Very much. I think that part of the high cost of living all over the world is due to gold inflation. I think the two great causes of the world rise of prices are gold inflation and credit inflation.

Senator SHAFROTH. An explanation was given here the other day that, in the judgment of one of the gentlemen, it was due very largely to the fact that the population in cities had increased at the rate of 22 per cent, and the population in country districts had increased only 2 per cent, and that therefore the consuming population had increased largely, and the producing population had practically stood still, and the greater the demand for the product and the same quantity of product would produce a higher price. Is that correct or not?

Prof. FISHER. I think it is partly correct and partly incorrect, Senator; but that is taking us off into another field—the cost of living.

Senator SHAFROTH. You do not want to make it harder for the Government to redeem its obligations in gold, do you?

Prof. FISHER. No; I want to make it easier for the public, so that we shall have a distinctively gold standard. It was necessary a short time ago for the House of Representatives to put into this bill a declaration in order to show the world that it was not on a silver basis.

Senator SHAFROTH. Everybody agrees to that.

Prof. FISHER. We are always talking about lack of money in an inflation, and no one ever gets enough money individually, you know.

Senator SHAFROTH. I do not think there is any country in the world on a purely gold basis, in the way of the use of gold——

Prof. FISHER (interposing). If the Government of the United States would inflate the currency by giving me a million greenbacks, free, I personally would be very much benefited. But the fact that I would like to have that amount of inflation, and everybody else would not, does not show that it is a good thing for the public.

Senator SHAFROTH. No. The issuance of the notes of the Government, of any quantity of money, is not good. There is no doubt about that. But it seems to me that we ought to, inasmuch as you have these runs on the treasury, make it just as easy for the Government to stand those runs as for the banks. We are trying to relieve the banks from excessive runs, and it seems to me that by opening up 12 competing points where they will compete against each other, it will take more gold to redeem the same quantity of money. In other words, if I have a bank note redeemable in lawful money, and I take it to the regional bank and I get my lawful money, I have got to get it cashed in gold. It is just as good, no doubt; but hundreds of people who sometimes get scared in that length of time conclude that the currency is all right and they do not want it, and consequently the drain on the Government will not be so great.

Prof. FISHER. I would be willing to offer the suggestion that the banks would like to have gold and allow the lawful money to remain in the vault for them, if that was regarded as an important point; but I think there ought to be somewhere a statement that is unequivocal that gold is behind everything. We have not any such statement now.

Senator SHAFROTH. I think that declaration is perfectly proper.

Prof. FISHER. Not a declaration; no; that is merely a pious thought; but we want to have a guaranty.

Senator SHAFROTH. A declaration that the Secretary of the Treasury shall buy gold or sell bonds to get gold—would not that be sufficient?

Prof. FISHER. That he shall redeem all the other moneys in gold.

Senator SHAFROTH. I do not believe as a matter of fact that this redemption of the greenbacks that you speak of would be wise at all. It is all right to say that you will take the greenbacks and retire them, but they ought not to be retired——

Prof. FISHER (interposing). I was not insisting that there should be compulsory retirement and should not be compulsory redemption.

Senator SHAFROTH. Contraction might occur.

Prof. FISHER. It would occur and did occur when we had such a situation as we had in 1893 when we were driving gold abroad because we were inflating the silver. The currency was overflowing abroad because we were pumping in silver and silver certificates, and this great mass of greenbacks performed the operation of sending it out. If they had been redeemable we would not have got down so low as we did in 1893.

Senator SHAFROTH. If they are willing to pay for it in Europe, it is going there. No redemption can keep gold from going to Europe if they are willing to pay more for it there.

Prof. FISHER. If we do not inflate our currency we can get gold here and keep it here. We have the biggest hoard in the world and can keep it here if we do not inflate our currency and drive it abroad.

Senator SHAFROTH. You understand, of course, that Mr. Cleveland, when he issued his bonds, was short on ordinary income for the Government, and it went into the General Treasury and served for the payment of expenses. The cost of maintaining the gold reserve at that time, even, was a mere bagatelle compared to the cost we pay on these bonds that secure the bank currency.

I guess I have taken up more time than I ought to have taken.

Senator BRISTOW. Prof. Fisher, were you ever engaged in the banking business?

Prof. FISHER. No; I began by saying I was not.

Senator BRISTOW. Have you ever been engaged in any line of mercantile business of any kind?

Prof. FISHER. Not very definitely. I am somewhat connected with a manufacturing business at present.

Senator BRISTOW. The purpose of the questions is to get your line of experience, because I think that adds more or less weight to the opportunities you have had for observation. You have been teaching all of your life, practically; is that your vocation?

Prof. FISHER. Yes, sir.

Senator BRISTOW. I understood you to say that you thought it was very important to the country that this bill should be enacted at this special session?

Prof. FISHER. Yes.

Senator BRISTOW. If business men engaged in large enterprises of various kinds whose business operations are affected very much by any change in our financial system or banking system, men of wide experience and wide opportunity for studying the movements, the

currents of our commercial affairs, should say that in their judgment it would be very unfortunate to have this bill enacted at this session, what weight would their judgment have upon your mind?

Prof. FISHER. I should respect that opinion, and I have given a good deal of weight to it in considering the matter. I think the bill needs improvement before passage, and I should be extremely disappointed if it were passed in its present form. But rather than have nothing better than what we have, I should be in favor of its passage in its present form.

Senator BRISTOW. That is, you would put your judgment, as a student, against the experience of these business men who have developed these great enterprises with which they have been connected for almost half a century?

Prof. FISHER. No; I do not maintain that my judgment is better than theirs, but it may be different.

Senator POMERENE. Are you assuming, by your question, Senator, that the business people and bankers all have one opinion on the subject?

Senator BRISTOW. Up to date we have not had any business men before us that had any different opinion.

Prof. FISHER. Mr. Hulbert stated substantially what I have been saying.

Senator BRISTOW. He is a banker; I am speaking of business men who borrow from the banks, and not the banks who loan the money. I just wanted to know your views as to what weight we legislators should give to the judgment and opinions of the practical business men of the country who are carrying on these enterprises that will be affected one way or the other by this legislation.

Prof. FISHER. Is it not true, Senator, that these men merely want to have this bill perfected? They object to it in its present form. They do not object to its passage, if it is perfected. They merely doubt, it seems to me, your ability to perfect it in the requisite time. I have talked with business men who are the kind of men that you refer to, men of large experience, and I find that there are a large number of them who think that this bill is on the right track. Not all are of the opinion that you quote. I am surprised if such men have not appeared before your committee.

Senator BRISTOW. The practical operation of the measure, as it touches the productive as well as the commercial energies of the country, is the thing that we ought to give first consideration to, is it not?

Prof. FISHER. Of course, that is the problem.

Senator BRISTOW. The purpose of my question was to elicit from you your judgment as to how much weight we ought to give to the men who are carrying on the enterprises such as I have referred to.

Prof. FISHER. I think you should give a great deal of weight to them, sir.

Senator BRISTOW. You spoke of the use of reserves being like a life preserver that was nailed down and could not be used. As a matter of fact, are not the reserves used when the crisis comes, but the use of the reserve is regarded as an evidence that the bank is in extremities, so it is forbidden to use it? But when the life of the bank is at stake the reserve is used, is it not?

Prof. FISHER. You mean in violation of law?

Senator BRISTOW. Why, yes.

Prof. FISHER. Yes, sir; to a certain extent, to 1 or 2 per cent. I was told, for instance, yesterday by one of your witnesses here that in July, when there was a very tight money market and very nearly a crisis, that a bank, for a week, had its reserve down to 23, when it should have been 25; and it was known; but that is a very small margin and a short time. You ought to have an elastic rubber ball there to go down in it as deep as you want.

Senator BRISTOW. I am not questioning the advisability of having some means whereby the reserve might be made more useful than it is; but you never have known a bank to fail with its reserve intact, have you? It would be very foolish for a bank to close its doors because it had gotten down to its reserve and had not gone any lower?

Prof. FISHER. No; not failed. Failure has not so much to do with the reserve as with the capital and surplus, whether you are solvent or not; but in the crisis of 1907 there were a number of banks that made a good deal of trouble for their customers because they had plenty of money in their reserve, but they simply wanted to keep within the law and would not accommodate.

Senator BRISTOW. They were afraid to put it out?

Prof. FISHER. They virtually closed their doors.

Senator BRISTOW. They did, yes; that is true, but they refused. I know banks all over the country refused to pay out money when they had plenty of it, because they did not know what might happen.

Prof. FISHER. Exactly.

Senator BRISTOW. And if they paid to one they would have to pay to all?

Prof. FISHER. Yes, sir.

Senator BRISTOW. So they refused to pay to any. That was because of a panic, and the reserves had nothing to do with it. The reserves would not have saved them in the panic of 1907?

Prof. FISHER. I think they would have.

Senator BRISTOW. You think they would?

Prof. FISHER. I think if we had had a mere proclamation it would have had the same effect as the proclamation of Secretary McAdoo offering $50,000,000 of money if they wanted it. It was a purely psychological panic in 1907.

Senator BRISTOW. Then, the fault was that the banks felt frightened?

Prof. FISHER. No; it was largely the fault of the law which compelled frights under those conditions.

Senator BRISTOW. I will not pursue it any further. I merely wanted to call this to your attention, that the bank ought to use its reserve when the stress comes, and it had to use it or go under. So it does serve as a reserve, so far as the depositor is concerned, does it not?

Prof. FISHER. In a sense; yes, sir. I do not mean to insist upon my simile of a life preserver, Senator.

Senator BRISTOW. If it is used, it should be buoyant enough to hold the bank up. It is not left nailed to the deck while the bank is drowning.

Senator SHAFROTH. Senator Bristow has yielded to me for a question.

I was very much interested in the theory of the reserve being fluctuating, and I think there is a great point in it, but I will ask you whether or not this would not accomplish the same result. Whenever the danger of panic arises there would be either the Comptroller of the Currency or some officer of the Government who would permit the substitution for the reserve in cash, notes of the bank that are good. In other words, reserves are of no use if they are to be kept in cash and not to be trespassed upon; and yet you say they ought to go down to the very minimum or zero. If there was some officer who could in times of stress say they would give permission that the reserve could be converted into notes, it would be a security, in case the bank failed, to the depositors, and that the money should be released to them.

Prof. FISHER. That would be another way of doing it. The Reichsbank, I understand, has the privilege every quarter of using, without gold to cover, 200,000,000 of marks in order to accomplish the business of that quarter without embarrassment to the business world. That is along the line of what you are saying exactly.

Senator SHAFROTH. That is all, I think.

Senator BRISTOW. You spoke of the rise in prices. Do you think that the rise in prices has been against the public interest? Has it been an unfortunate thing?

Prof. FISHER. Very.

Senator BRISTOW. You think it has?

Prof. FISHER. Very.

Senator BRISTOW. You think that when the producer gets a better price for what he produces, that it is an evidence of calamity?

Prof. FISHER. Not to him; but the price has two sides, the buyer and the seller; and in the matter of social justice, it hurts certain classes and benefits other classes. That is a very big problem. I have written a book on the subject, Senator; I think Senator Owen has a copy of it.

Sentor BRISTOW. You think the price of corn and wheat and hogs and cattle and potatoes, and things of that kind, ought to be reduced?

Prof. FISHER. No. I think the general price level ought to be maintained unchanged, as nearly as possible. A stable price level I think is an advantage, but the inflation of prices, such as we had during the Civil War, and such as we have had during the last 15 years, is a calamity, just as the deflation of prices as we had in 1873 and 1896.

Senator BRISTOW. You speak of the inflation of prices. What law controls? Do you think it is the surplus of gold? I understand you to say you give credit to that for this situation, that it figures in our prices?

Prof. FISHER. Partly.

Senator BRISTOW. What else?

Prof. FISHER. The inflation of credit, partly.

Senator BRISTOW. Why is the price of wheat lower now than it was years ago?

Prof. FISHER. The price of any individual commodity is an entirely different thing from the price level. Certain prices are lower, though the general price level is higher than you get from an index number, of course. And even the index number in this country,

such as was published by the Bureau of Labor, now called the Bureau of Labor Statistics, understates the rise. It shows a rise of over 50 per cent in 15 years, but it understates it, because it gives too much emphasis to the things which have fallen in price. I was just talking with the head of that bureau yesterday in regard to that matter.

Senator BRISTOW. What commodities do you especially refer to as having risen far beyond what they were justified in advancing?

Prof. FISHER. I can not enumerate them; but this index number is based upon 267 wholesale prices. It shows an average rise of 50 per cent.

Senator BRISTOW. Do you think that is due to the currency?

Prof. FISHER. Largely.

Senator BRISTOW. A currency system, then, may create a rise in the price of cattle and not in the price of sheep, or a rise in the price of oats and not in the price of wheat?

Prof. FISHER. No, sir; it would affect the price of all of them, but some of them are going in the other direction. It is just like the Hudson River; some steamboats are going up and some down. You can not claim on that account that the river did not pull them all downward. It pulls every steamer on the river downward, but nevertheless some are going upstream. They are pulled downward just the same.

Senator NELSON. Senator, will you allow me a question?

Senator BRISTOW. Yes.

Senator NELSON. Have you taken into account in your estimate of the inflation of prices the higher grade of living and the increase of our population?

Prof. FISHER. In a way.

Senator NELSON. Is not the grade of living higher than it was 15 years ago?

Prof. FISHER. Yes; but I interpret that to mean, Senator, that the actual wealth of the world is greater. People live higher because there is more to live with. We have invented and produced a great many things within the last 15 years, and that also disposes of the theory that the high level of prices is due to the scarcity of goods. It is not. There is no scarcity of goods. Goods have increased in value. It is due, not to the scarcity of goods, but to the abundance of the means of paying for goods. But I am afraid we are getting rather far from the subject.

Senator BRISTOW. No; I think it is directly on the question of currency reform. This is a new idea to me. I do not mean to say it is a new idea, but it is new in this hearing. This is the first time it has been injected into the hearing. I think it is a very important matter.

Prof. FISHER. Yes.

Senator BRISTOW. The redundancy of gold in the country is one of the causes of high prices?

Prof. FISHER. It is a very common opinion, sir.

Senator BRISTOW. I have heard it expressed, but it has not been injected yet into these hearings.

Why is it that this redundancy of gold does not make the price of sugar go up, the same as it has the price of bacon?

Prof. FISHER. Because sugar happens to be one of the steamers going up the river.

Senator Bristow. Is it going up the river instead of down?

Prof. Fisher. I am perhaps confusing you by using the simile of the stream running down to indicate the rise of prices, but what I mean is, sugar has specifically had a tendency in the opposite direction to the general tendency of prices, and it has been affected. In other words, if gold had not declined in purchasing power, sugar would have declined in price more than it has. I do not maintain that the inflation of the currency can affect one commodity one way and another commodity another way.

Senator Nelson. Do you take into account that in the realm of production, the production of one commodity is superabundant while that of another commodity is scarce? That is, for instance, the crop of potatoes was very poor in the country, while this year the crop of wheat is very abundant. Does that cut any figure in your estimate of prices?

Prof. Fisher. Yes.

Senator Nelson. And does not the amount of production of a country, whether it is an agricultural product or anything else, the volume of production, determine to a large extent the scale of price rather than the money theory?

Prof. Fisher. Not rather than, but is a part of that theory. That is, the volume of trade is one of the five factors that virtually act upon the price level.

Senator Nelson. But the volume of trade has nothing to do with it; that is simply an exchange of commodities.

Prof. Fisher. But that is dependent on the production.

Senator Nelson. If a crop of wheat is abundant, as it is in this country, then the price will be low?

Prof. Fisher. Yes.

Senator Nelson. This year the price of corn is high, because in a great many States it has proved a failure. How can you ascribe all these things to the currency system?

Prof. Fisher. I do not, sir.

Senator Nelson. And if there has been such an inflation of our currency for the last 15 years, what is the urgency of more currency at this time?

Prof. Fisher. I am against having further inflation. I emphasized that point; and I think further inflation must be guarded against in drawing this bill.

Senator Nelson. Go on, Brother Bristow.

Senator Bristow. Professor, I will have to hurry along.

Senator Nelson. I am sorry I have taken up your time, Senator.

Senator Bristow. I want to say that while it has been impossible to prevent this congestion, I hope when we get more witnesses before us we can have all the time we need in order to get their views elaborately, and that we will not be handicapped here with so many important men in such a limited time. It has been unavoidable so far.

Prof. Fisher. I do not think that I have anything further to offer. I can come back at any time the committee should so desire.

The Chairman. I would suggest that you read this book by Prof. Fisher. That would help you in this problem.

Senator Bristow. I would rather talk with the professor face to face than to read his book, as entertaining as that would be.

What per cent of loans would be available in this country, of the general loans that banks have under the provisions of this bill—that is, the 90-day limit?

Prof. FISHER. I do not know. That is a question that I should think only a banker could answer.

Senator HITCHCOCK. They give it up.

Senator BRISTOW. That being beyond the possibilities of ascertainment, how much of this currency would be issued? Does anybody know?

Prof. FISHER. I do not suppose it would be possible to calculate it with exactness, but I should think that you might make some estimate, because you have 10 per cent gold on the capital of the banks; you know what the capitals of the banks are; you know what the deposits with the United States Government would be, and you can reckon up the resources of the banks.

Senator BRISTOW. But it is not on resources; it is on loans.

Prof. FISHER. But those resources would be put in the loans, and in that way you can reckon the loans.

Senator BRISTOW. There is a bank in New York which has 24 millions of loans and discounts on a million capital.

Prof. FISHER. But they had a large surplus besides. That is really a part of the capital. Capital, surplus, and undivided profits ought really to go together every time.

Senator BRISTOW. That is about 8 or 10 to 1, is it not, of deposits to capital?

The CHAIRMAN. About 8 to 1, of the national banks.

Prof. FISHER. And when you take in the State banks and trust companies it probably would go beyond that.

Senator BRISTOW. It is the notes that are available for rediscount; that is the only limitation, is it not?

Prof. FISHER. I do not mean the capital would be a limitation, but in making an estimate I would begin that way. The size of this bank is determined somewhat by the capital, and I would talk about the Government deposits that go in there.

Senator BRISTOW. That would determine approximately what was the character of their loans and discounts; what per cent of this would be available under this 90-day limitation is simply an unknown quantity, is it not?

Prof. FISHER. Well, it is unknown; but it is not unknowable, it seems to me. I should think if you got the right kind of men here before your committee you could make a pretty good estimate of that.

Senator BRISTOW. You think we could. Well, we have not been able to up to date. We may be able to get that later on.

Prof. FISHER. There must be some figures as to the volume of loans in existence on different dates, the same limitation, 30, 60, 90 days, etc.; and then they would know what percentage of them would be cut off every day.

Senator BRISTOW. You spoke of replenishing the gold reserve which should be used in redeeming this currency that is proposed by this bill. I want to see if I understand you properly. I understood you to say that while no provision is made except this 5 per cent for the redemption of this currency, the Government could, when a gold certificate is presented, instead of giving the gold, nominally give the gold to the holder of the certificate, and then say to him, "Here, I

will give you twice the amount of legal-tender notes for this gold," and in that way get the gold back and put it into the reserve fund to put behind its circulation, its currency, and keep it up and use the billion dollars of gold we have got down here. Is that your suggestion?

Prof. FISHER. Yes; with a very important specification, that that should be not as a matter of current exchange, but of an emergency, with a penalty attached, only in case there is a crisis on, a panic impending. Then these banks who would have in their reserves large quantities of these certificates could double the amount virtually by converting them into the notes.

Senator BRISTOW. Yes, I can see that it is purely for the purpose of meeting an emergency; but suppose that these notes were presented for redemption in gold and the Government has not got the gold. How is the Government to get the gold when it has not got it?

Prof. FISHER. You mean in an emergency?

Senator BRISTOW. No; the currency that is based upon these assets——

Prof. FISHER. You are not talking of certificates?

Senator BRISTOW. No; the fund, the reserve, the currency.

Prof. FISHER. The current redemption of the notes ought to be specific in this bill.

Senator BRISTOW. How would the Government get the gold to redeem them when they are presented? Five per cent is not enough. That is all the bill requires.

Prof. FISHER. I could not add anything to what Mr. Hulbert said in regard to that.

Senator BRISTOW. I did not know that he talked of it. I did not understand that he did.

Prof. FISHER. He said that he thought the 5 per cent was not enough. I am not informed as to that.

Senator BRISTOW. There would be a larger per cent of gold maintained there by the banks, a sufficient per cent?

Prof. FISHER. Certainly.

Senator BRISTOW. What per cent would that be?

Prof. FISHER. I do not know. I should think that that might be figured on the basis of experience that has been mentioned here.

Senator BRISTOW. So you would compel the banks to provide the Treasury with the gold to redeem these in whatever amount was necessary?

Prof. FISHER. Yes, sir. It seems to me when we have a scientific currency, responsive to the needs of business, we will not need a great deal for redemption, because the money will all be fully occupied.

Senator REED. Do you think that the massing in the Federal Treasury of over a billion dollars in gold has had any tendency to strengthen the currency of our country?

Prof. FISHER. Simply sentimentally. It represents, of course, ownership not by the Government, but by the people; that gold is nominally in circulation.

Senator REED. But, sentimentally it has been of value?

Prof. FISHER. I think so.

Senator REED. If a billion dollars of the currency of the United States is backed dollar for dollar by gold, at least that part of our currency is secure and safe, is it not?

Prof. FISHER. It certainly is.

Senator REED. Would you not say, then, that the massing of this gold has added greatly to the strength of our financial system, speaking as a whole, and giving it a condition of confidence in the minds of the people of the world?

Prof. FISHER. I do not think it has added as much as one would think, from the mere offhand statement that we have a billion dollars of gold in the Treasury, because when we come to analyze it it does not remedy the inelastic condition of the currency——

Senator REED. I am not speaking of that. I did not mean to interrupt you, but I want to be brief. Therefore I want if possible just to confine your thought to this one matter. Is it not your opinion that every form of money we have in this country to-day is regarded more highly in the country because over a billion dollars of gold is piled up in the Treasury and at least a billion dollars of our circulating medium is backed for 100 cents by gold?

Prof. FISHER. Perhaps, sentimentally; yes.

Senator REED. Well, suppose you take it out and you have no gold, and we wipe it out. Do you think our currency system would be anything like as stable as it is?

Prof. FISHER. You mean in case all the holders of certificates should redeem them and carry them in their pockets?

Senator REED. Oh, yes; if the holders of certificates were to cash in for this gold, and it was to be scattered throughout the country, would we be as secure as we are now?

Prof. FISHER. I do not know. We might then have the sentiment that we are carrying our certificates in our pockets. That is what the Englishman boasts.

Senator REED. So you really think the piling up of a gold reserve is not much use?

Prof. FISHER. I think it could be made of colossal security and of stability, because it would at any time be released to add to that 150 millions under an emergency act such as I described.

Senator REED. If you did not have it, you could not release it.

Prof. FISHER. No; as far as that is concerned.

Senator REED. Professor, do you think that this bill absolutely takes every dollar of the gold out of the Federal Treasury, or makes it possible to take it out?

Prof. FISHER. I do not think it makes it probable to be taken out, because our people will not carry it, and these Federal reserve banks will therefore not carry it either very much.

Senator REED. Let me state it to you.

Prof. FISHER. They will carry the yellowbacks instead.

Senator REED. This bill provides that after its enactment every dollar of money in the Federal Treasury except that which is held in special deposits shall be carried out of the Federal Treasury and put into these banks. It further provides that every dollar the Government gets, from any source, shall be carried over and put into the vaults of these banks.

Prof. FISHER. But I do not understand that it related to that one billion. That is a special deposit.

Senator REED. Wait; I am not talking about that. That removes, of course, all moneys they have now except the special deposits, and it absolutely stops the possibility of accumulating any future deposits.

We propose in this bill to issue asset currency to these banks based upon notes of hand which they may present to the Federal agent. Each time we issue a note for $1 we must put aside in the banks 33⅓ cents of gold. How long do you think the banks will be in taking these yellowbacks, as we have called them, down to the Federal Treasury and looting the Federal Treasury of that billion dollars of gold by having yellowbacks redeemed and the gold transported over to their vaults, and make up their 33⅓?

Prof. FISHER. Who has proposed that?

Senator REED. Why, the bill itself proposes that whenever we issue money to these banks on their assets they shall lay aside 33⅓ per cent in gold.

Prof. FISHER. No; I think not. Gold or lawful money.

Senator REED. Gold or lawful money.

Prof. FISHER. And that would be, so far as that is concerned—it would not be gold; it would be yellow backs except a little amount of till money in gold.

Senator REED. It would be yellow backs. Well, whenever the yellow backs were all gathered into the banks and set aside in the reserve, it would be exactly the same as if the gold had been physically transported?

Prof. FISHER. I think not, Senator.

Senator REED. Why not?

Prof. FISHER. It would be just a transfer of the ownership from the hands of the public to the hands of the bank of the title to that gold.

Senator REED. The banks would own this gold instead of the public.

Prof. FISHER. That is all.

Senator REED. The banks would get the gold.

Prof. FISHER. Oh, they would not any more than we would.

Senator REED. Possibly not; they might prefer the Federal Treasury.

Prof. FISHER. They would prefer what their customers preferred; and their customers will not have gold.

Senator REED. But the question is that the ownership—I do not care just where the physical gold is put—would be centralized in the bank and set aside as a reserve back of this asset currency.

Prof. FISHER. Yes.

Senator REED. And the Government could never accumulate in all its history under this bill another single dollar of gold to lay it aside, because it has to take every dollar as quick as it gets it and carry it over to the bank.

Prof. FISHER. Your question has no relation to this billion dollars of gold.

Senator REED. No; I am talking about future accumulations.

Prof. FISHER. The current funds.

Senator REED. Yes.

Prof. FISHER. Why, yes it could. It could accumulate future funds by issuing certificates for the gold that would come in to it from the banks.

Senator REED. But that is not this bill.

Prof. FISHER. Does not this bill permit that?

Senator REED. This bill provides that the Government of the United States shall hereafter deposit all of the moneys it acquires.

Prof. FISHER. With certain exceptions, of which this reserve for the yellowbacks is one.

Senator REED. No; that is not an exception.

Prof. FISHER. Then it should be put in it, if there is any difficulty about that, and there would be no more sense in exempting the present hoard than in exempting the future ones.

Senator REED (reading):

> That all moneys now held in the general fund of the Treasury, except the 5 per cent fund for the retirement of outstanding national-bank notes, shall, upon the direction of the Tresaurer, within 12 months after the passage of this act, be deposited in Federal reserve banks, which banks shall act as fiscal agents of the United States, and thereafter the revenues of the Government shall be regularly deposited in such banks and disbursements shall be made by checks drawn against such deposits.

I call your attention to that.

Prof. FISHER. Mr. Senator, if that means that they must physically deposit any gold that floats into the Treasury, would it not still be possible under the bill for the bank which receives the gold, if it receive more than its customers wanted, which it very shortly would, to send it back to the Treasury in exchange for gold certificates? Is not that permitted stlll?

Senator REED. This bill as far as I noticed it with reference to this point does not make any such provision.

Prof. FISHER. It seems to me that would be automatic, under the existing law. Anyone having gold is now allowed to deposit with the Treasury in exchange for a warehouse receipt.

Senator REED. Under the present law?

Prof. FISHER. There is nothing to permit that under the law, is there?

Senator REED. If the bank wanted voluntarily to carry it over there, it could do it. You think they would not do it?

Prof. FISHER. I most certainly do. I think the banks do not want to use up their valuable storage room and iron vaults for carrying useless hoards of metal that they never could make any employment of.

Senator REED. Is not this the way that we have been able to accumulate gold and set it aside? We have a large circulating medium in this country that is not receivable for Government dues. Therefore while that serves the functions of money with the people generally, it can not be received at the customhouses or is not generally received there.

Prof. FISHER. I did not quite catch what it was that was not received at the customhouses, Senator?

Senator REED. National-bank notes are not a full legal tender at customhouses. That forces the payment of customs dues in gold, or the equivalent of gold. Therefore, there is a stream of gold pouring into the Treasury, and every time the Federal Government gets a gold dollar it can lay it aside and issue a gold certificate. That has been the method of accumulation. But if it is obliged to take that money as soon as it comes in and put it into the bank, it loses that advantage, does it not? I wish you would think about that a little.

Prof. FISHER. That is something for the committee to think of. If it is desirable, as I believe it is, to keep the physical hoard of gold in the Government vaults, it is very easy to remedy that provision in the bill, of course, by stating that the depositing of Government funds in the case of gold shall be regarded as accomplished if the deposit is made in the form of warehouse receipts for the gold.

Senator REED. In regard to the question of the amount of money which might be issued under this bill, there was some question raised here as to there being a natural or automatic regulation. I find in looking at the report of the comptroller that we had in the banks demand paper on June 14, 1912, 571 millions; on demand, secured by stocks, bonds, and other personal security, 985 millions; on time paper, without security, 1 billion 198 millions.

You do not see any difficulty, do you, if the banks wanted to do it, in their converting all of that paper into a class of paper which would come within the definition in this bill?

Prof. FISHER. I should think it would be extremely difficult to convert it all into that type of paper, because this type of paper is short-time paper.

Senator REED. The question of time enters into it. Do you think there would be any difficulty in the banks in a short time reducing this paper to short-time paper, and if they could use short-time paper to more advantage than the long-time, would they not naturally do it?

Prof. FISHER. I think they would. I think that would be an advantage.

Senator REED. It is entirely possible, then, that it all might be so converted and changed as to become legitimately the basis for the issuance of money? The aggregate of these items that I called attention to is $2,754,000,000.

Prof. FISHER. For what banks is that?

Senator REED. That is the national banks alone. I am not speaking now of the State banks.

Prof. FISHER. But their total loans must be bigger than that. You must have left out something.

Senator REED. Oh, yes. It is two classes that approximate the commercial paper and only require slight changes. As I figured it, saving 33 per cent reserve each time money was issued, there could be issued in paper money nearly six billions of dollars, and with the gold reserve of 33 per cent, that would be something like nine billions of money in the gold or paper in this country, provided you could get enough gold to make that kind of a reserve. Would that be a safe proposition without some regulation, some limitation?

Prof. FISHER. It would certainly be a great disaster to have such an inflation as that.

Senator REED. I am talking about the possibility of inflation. I may be in error. I have been asking my questions to get your view of this bill.

Prof. FISHER. I said at the start I was sorry I had not been able to make any detailed study of such calculations.

Senator REED. I wish you would give the committee the benefit of your thought on that. I would appreciate it. I do not mean at this moment, but that you should devote your thoguht to it and let

the committee know the result. While there are many questions I would like to ask you I realize the time is short, and I will ask no more.

Senator HITCHCOCK. Prof. Fisher, you feel that it has been unfortunate for the country that we have had such a rise in prices, and you think the cause is due to the great increase in our circulating medium?

Prof. FISHER. Yes; that is the chief cause.

Senator HITCHCOCK. And do you not think that this bill will further increase our circulating medium?

Prof. FISHER. I think that ought to be avoided.

Senator HITCHCOCK. Is not the purpose of this bill to increase the facility of turning credit into currency?

Prof. FISHER. I did not understand the purpose of the bill was inflationistic but elastic.

Senator HITCHCOCK. It certainly is proposed as one of the prominent features of this bill to issue Government notes to the 12 reserve banks upon their request without any limit. Those Government notes are to circulate as curreeny.

Prof. FISHER. But there is a provision for the retirement of the bank notes each year.

Senator HITCHCOCK. That is true for each year, but it is based on paper.

Prof. FISHER. Yes.

Senator HITCHCOCK. But that is simply substituting for a perfectly safe currency, a currency which has no strong degree of security. Do you think the effect of this bill will be to contract the credit and the currency of the country?

Prof. FISHER. It looks to me, as it now stands, as though it would expand it somewhat.

Senator HITCHCOCK. And yet you say you think it ought to pass at this session.

Prof. FISHER. Yes; I would like to take it, even with the inflation, in order to get rid of our present inelastic system, which is inviting to panic at this time. But I want to emphasize as a fact and to have it go into the record as emphatically as possible, that I am very much opposed to any tendency to inflate the currency, and that this bill ought to be carefully calculated. That is the reason I spoke of the possible retirement of the greenbacks, to give the Secretary of the Treasury discretion to get them out of the way. If they can be used as an endless chain again to export the gold, we ought to simply substitute an elastic currency and they ought to be retired. We ought to simply substitute an elastic currency for an inelastic currency, and we now have four or five rigid rocks in our currency—the bank notes, set at a certain fixed sum, and the greenback, and the silver. They are like three big chunks of ice in a pitcher of water. You have a little water around them. They can float, but the ice is absolutely rigid. But I will not pursue the simile any further.

Senator HITCHCOCK. Are you thoroughly convinced this currency should be elastic?

Prof. FISHER. Yes; I think we want an elastic currency.

Senator REED. Is not your simile rather a bad one?

Prof. FISHER. I will take back the simile.

Senator REED. The truth is, that your ice is circulating all the time, but it does not get any larger or any smaller.

Prof. FISHER. Yes.

Senator HITCHCOCK. You are thoroughly convinced we should have an elastic currency.

Prof. FISHER. Yes. In Germany, for instance, where they have a great deal of expert talent working on this proposition all the time, they go into great detail. When there is an unusual demand for currency they issue it without any penalty; if it is kept out any longer than for one quarter there is a penalty. So that the collections take place in volume of currency instead of its velocity. In this country we have the latter two instead of the first.

Senator HITCHCOCK. If you believe in an elastic currency you must have given the subject a great deal of study, and you must be able to tell the committee what percentage of elasticity we have.

Prof. FISHER. Well, elasticity to my mind is not measurable in a percentage.

Senator HITCHCOCK. But it is measurable. You can take the percentage in France or Germany or England every day, every year.

Prof. FISHER. My definition of a perfectly elastic currency would be one which varied with the demands of trade in such a manner as to maintain the price level constant.

Senator HITCHCOCK. Are you sure that there is such a variation in the trade of the United States as requires an expansion and contraction of the currency? Are you not really confusing expansion and contraction of the currency with expansion and contraction of credit?

Prof. FISHER. I am very glad you mentioned that, Senator, because while I think the expansibility and contractibility of the currency, of the money is important, the expansibility and contractibility of the credit is very much more important.

Senator HITCHCOCK. One is not coterminous with the other?

Prof. FISHER. No.

Senator HITCHCOCK. As a matter of fact, in a great country like the United States, with wonderfully diversified interests and business and occupations, and expansion of credit in one part may be at one season of the year, in another may be another season of the year, so that the same body of currency all the time may be sufficient.

Prof. FISHER. If it should happen to average all right, yes.

Senator HITCHCOCK. And are you not thinking only of the small European experience with a comparatively small diversity and where an expansive currency has been provided to meet their requirements. Their demands are quite regular and quite homogeneous from the whole country. I would like to ask you whether or not from the experience of Germany and France, supposing we were as small as they are and as lacking in diversity as they are, what degree of expansion between the minimum and the maximum would you think necessary. I am referring to currency and not credit.

Prof. FISHER. In the course of a year I should not suppose the expansion and contraction would be a very large per cent.

Senator HITCHCOCK. Could you estimate it?

Prof. FISHER. No; it would be just a matter of guesswork.

Senator HITCHCOCK. You think it would be very small, and yet you would be in favor of tearing our whole currency up by the roots, changing the whole system, when as a matter of fact, there only is a fluctuation of a small percentage on top that you want to get at.

Prof. FISHER. I said at the outset that I think the credit elasticity is the important thing to work at and that you at any rate ought not to adjourn without doing something in the nature of what I suggested to allow the utilization of bank reserves when they get below the legal limit.

Senator HITCHCOCK. That is another proposition.

Prof. FISHER. Yes; that is another proposition.

Senator HITCHCOCK. Yes; I agree with you on that policy; but suppose I tell you that the contraction and expansion of credit in France is only about 6 per cent. I mean the contraction and expansion of the currency in France.

Prof. FISHER. The difference between maximum and minimum in the course of a year——

Senator HITCHCOCK (interposing). Would you think that the experience there shows that the contraction and expansion of the currency for the whole country only amounts to about 6 per cent? Do you think it is necessary for us to discard our whole system and get a new system only to secure that trifling expansion and contraction?

Prof. FISHER. As I just said, Senator, I do not think that is the greatest object. I think that is a desideratum. But the greatest object of this bill is to secure what ought to be security and elasticity of credit.

Senator HITCHCOCK. Now, I want to ask you about another thing. You think this ought to be done in a hurry. My own judgment is that when it is done it is going to produce a tremendous contraction of credits for the reason that in our reserve cities there are 350 banks that must all during a short period of time produce about $400,000,000 of cash, and in order to secure that cash they have to call in their loans. I want to ask you this: Suppose that is done as far as the national banks are concerned, where are the State banks expected to get the cash? They must increase their reserves up to the requirement of the national bank act. Where are they going to get that additional reserve? The State banks now carry a much smaller reserve than national banks. Where are they going to get it?

Prof. FISHER. In the ordinary course of banking. I think that in view of the possibility of such a contraction the transition should be made slowly. I think that should be carefully calculated out. I greatly regret that I do not feel in a position to specifically say that should be done, but it seems to me it ought to be done. As to passing this bill in a hurry, I think it would be unfortunate to include anything in it which might by any possibility produce contraction, extension, or inflation. I will say that I think the bill ought to be reduced to its minimum of the things you are sure about—simplify the bill. Don't put too many powers into the hands of the Federal reserve board, etc. Then, after it is launched, the defects of omission can be readily corrected on the basis of experience, whereas defects of commission will make trouble for you.

Senator POMERENE. I would like to ask just one question. In your judgment, should these reserve notes be the obligations of the Government or not?

Prof. FISHER. You mean do I think they are now in the bill or they ought to be?

Senator POMERENE. No, should they be?

Prof. FISHER. Senator, I think there are many ways to kill a cat, and I think you can start out on a policy by which the Government guarantees all the currency; you can start out on a policy by which the Government delegates to the bankers. For my part I do not think there is so much to choose from. I do not really know which I prefer. I think I rather would prefer the Government should keep out of it as much as possible; but if the Government wants to go into it as much as possible I am willing to trust the Government.

Senator POMERENE. In view of your statement, let me ask you this: Will you state briefly the reason for making them the Government obligations, and the reasons for not so making them.

Prof. FISHER. Well, of course, if the Government is behind it public confidence is supposedly impressed with that fact; but if the Government is not behind it public confidence may be injured. It is the argument of confidence you can put on their side, according to how the thing stands.

Senator POMERENE. Well, with the securities that are provided in this bill for the retirement of these notes, would the Government be incurring a very great liability if it issued them as its obligations?

Prof. FISHER. Not very great. Not greater at any rate than in the form it now supposedly does?

Senator POMERENE. Yes.

Prof. FISHER. I do not think so; it does not impress me that they are more than nominally Government obligations. The Government puts the onus on the bank of maintaining reserves for their redemption, so that while the Government agrees to redeem, just as it does in the present bank system, it intends to compel the banks to do it as the regular thing.

Senator REED. Mr. President, before we adjourn I want to make a short statement.

The CHAIRMAN. Have you any further questions to ask Prof. Fisher? Professor, we are very much obliged to you.

STATEMENT OF T. CUSHING DANIEL, OF VIRGINIA.

Mr. DANIEL. Mr. Chairman, in order to establish a sound and safe monetary system in the interest of all the people in the United States, it is first necessary to explain the present gold-basis fallacy, the very foundation of the present money system and upon which all credit substitutes for money are issued by the Government and dealers in debts.

As J. Pierpont Morgan, Irving Fisher, Lawrence Laughlin, and many other professors of political economy in the great universities of the United States have indorsed this economic fallacy, it therefore becomes of paramount importance that it should be most carefully considered by your committee at this time.

I now quote from the sworn testimony of J. Pierpont Morgan, as a witness before the Money Trust investigating committee of Congress, December 19, 1912, Washington, D. C.

> Mr. UNTERMYER. Money is a commodity, is it not?
> Mr. MORGAN. Yes.
> * * * * * * *
> Mr. MORGAN. Money is gold and nothing else.

A few months later, Prof. Irving Fisher, of the department of political economy, Yale University, 1913, stated before the American Economic Association in Boston:

We so seldom see gold coin that we are apt to forget that the ultimate unit of money in the United States is a certain weight of gold. Many people are under the impression that a dollar is something created by Government fiat. It is, as a matter of fact, a unit of merchandise. Underlying every bank note, greenback, or other form of money which we handle daily is a gold dollar with which this other money is interconvertible with 25.8 grains of gold bullion; mere merchandise, fixes the purchasing power of the dollar. Every dollar must be worth what 25.8 grains of gold bullion is worth, no more and no less.

In New York, January, 1913, after Mr. Morgan had declared gold was a commodity and that gold was money and nothing else, Prof. Laughlin, department of political economy, University of Chicago, made the following statement:

J. Pierpont Morgan was correct when he said "Money is gold and nothing else."

In order to close the case against the people in favor of a gold basis for the redemption of credit money, issued by banking corporations and the manufacturers of debts, could a stronger trio be found to indorse this economic fallacy? A gigantic scheme to exploit the people. I want the people to realize the tremendous and far-reaching importance to them of this false basis of money—the very foundation upon which banking corporations, money lenders, and manufacturers of debt issue and draw interest on their credit substitutes for money.

Our whole system of money and currency is built upon this absolutely false foundation, which has and is now costing the people untold millions.

We are indeed fortunate in having these reputedly great authorities state unequivocally the economic basis or foundation of their money system. Especially true is it at this time, as the present administration at Washington is adopting this false system as the foundation of the money bill now being forced through Congress.

I will repeat those reputed authorities, J. P. Morgan, Prof. Irving Fisher, and Prof. Lawrence Laughlin, unreservedly hold, "that 25.8 grains of gold fixes the purchasing power of the dollar."

I will now show that this is an absolute fallacy and will first prove that the unit of value in the United States is the dollar and not the 25.8 grains of gold in the dollar.

The United States mint was established by the act of Congress of April 2, 1792, and it provides in section 9:

That there shall be from time to time struck and coined at the said mint coins of gold, silver, and copper of the following denomination, values, and descriptions:

Eagle: Each to be of the value of 10 dollars or units and to contain 247$\frac{4}{8}$ grains of pure standard gold.

Dollars or units: Each to be of the value of a Spanish mill dollar, as the same is now current, and to contain 371$\frac{4}{16}$ grains of pure silver.

Half dollars: Each to be of half the value of the dollar or unit.

SEC. 20. *And be it further enacted*, That the money of account of the United States shall be expressed in dollars or units, dimes or tenths, cents or hundredths, mills or thousandths: A dime being the tenth part of a dollar; a mill the thousandth part of a dollar, and that all accounts in the United States shall be kept and had in conformity to this regulation.

This act establishes $1 as the legal unit of value in the United States and then says that when gold is coined into a dollar or money unit it shall contain 25.8 grains of gold, and this gold shall be weighed

according to the standard of weight used at the mints before being coined into money units or dollars.

The dollar or money unit is the creation of the sovereign power of the people and binds them and their property to protect its value and redeem it at par. In other words, it is a creation of law, lawful money of the United States, a legal tender for all things on sale, all services for hire, and the ultimate of payment for all debts, public and private.

This means that 96,000,000 people in the United States stand ready to receive it and redeem it at 100 cents on the dollar. In fact, its money value, its purchasing and debt-paying power, would be the same if it did not have one grain of gold in it.

Every legal-tender dollar or money unit is redeemable (continuously) in $134,000,000,000 of national wealth, including all the gold and silver that we now have, or ever will have, and the services of 96,000,000 of the most energetic, enterprising, and productive people in the world.

That money is a creation of law has been recognized by the leading and most reliable economists of the world from the days of Aristotle. This great thinker, whose complete neglect of artistic forms and his adherence to "essential, naked truths," induced Dante to speak of him as "The master of those that know," and placed him at the head of the philosophic family, speaking of money, says, in Ethics:

> Money, then, has been made by agreement, as it were, a substitute for demand, and is so called because it exists, not by nature, but by law, and it is in our power to change it and make it useless for the purpose. It is called "nomisma" (from "nomos," law), because money is not a natural product, but exists only through law, and it lies with us to change it and rob it of its utility as we will.

Paulus, the Roman juris-consult, incorporated in the Pandects of Justinian this economic fact:

> And this material—gold—stamped by the State, circulates with a power which it derives not from the substance but from the quantity. Since that time of the things exchanged one is called merchandise and the other is called price.

It is plain that the 25.8 grains of gold is not the unit of value of the United States, but that $1 is the unit of value and so declared by law.

I will now prove that the dollar puts the value into gold and not the gold the value into the dollar.

What would be the value of gold if demonetized?

The history in the fall in the price of silver when demonetized is the conclusive answer. The demonetization of silver started in 1873, at which time silver was worth $1.00368. Present price after being demonetized (i. e., denied the use as money), 54 cents.

Fix the basic fact in the mind, that value depends upon demand. No fair-minded man will contend that gold, if demonetized—or denied the use as money—would be worth more than 50 cents on the dollar.

Two-thirds of the present value of gold is based on demand (and is an artificial one) created by the law allowing it to be coined into money, only one-third of the supply being used in the arts. Its value as a metal has been entirely lost in a fixed value given it as money, allowing it to be coined into money.

I will now show that the purchasing power of the money unit, or dollar of the United States, does not depend, as stated, viz:

> On the 25.8 grains of gold that fixes the purchasing power of the dollar.

This conclusion is based on the exploded theory of intrinsic value in gold.

Let us analyze the value of this commodity, gold. Has it intrinsic value?

Our common sense at once tells us there is no such thing as intrinsic value, for the simple reason all value is relative. In order that there may be no remaining doubt on this, I refer to the following leading authorities:

Prof. Jevons, Essay on Value of Gold:

There is no such thing as intrinsic value.

John Stuart Mill, Principles of Political Economy:

There can not, in short, be intrinsically a more insignificant thing in the economy of society than money.

Prof. Perry, Principles of Political Economy:

This author is led astray by the worse than useless adjective "intrinsic," having never yet learned that there is only one kind of value in economics, namely, purchasing power.

Mr. MacLeod, speaking of the expression "intrinsic value" says:

This unhappy phrase meets us at every turn in economics, and yet the slightest reflection will show that to define value to be something "external," and to be constantly speaking of "intrinsic value," are utterly self contradictory and inconsistent ideas.

Thus over and over again it is repeated in economical treatises that money has intrinsic value, but that a bill of exchange, or bank note, is only the representative of value.

Money will exchange for anything—corn, houses, horses, carriages, books, etc.—and each of these is the value of the money with respect to that commodity. But which of these is its intrinsic value? The incongruity of these ideas is so glaring that it is only necessary to call attention to it for it to be perceived at once. "Yet from the very beginning of the science this phrase has infested it."

To say that money, because it is material, and the product of labor, has intrinsic value, and that a bank note is only the representative of value, is just as absurd as to say that a wooden yard measure is "intrinsic" distance, and that the space of 36 inches between two points is "representative" distance. It is of the first importance to economic science to exterminate this unhappy phrase "intrinsic value," which is clearly shown to be a contradiction in terms. (MacLeod: Theory and Practice of Banking.)

Thus having disposed of this transparent fallacy of "intrinsic value" used so successfully for many years by those advocating the gold basis for the redemption of credit substitutes for money issued by banking corporations and manufacturers of debts against the people, we are now prepared to annihilate the entire premises or foundation upon which the present false and infamous money system is established, advocated, and indorsed by J. P. Morgan et al.

Here is the crux of their economic conclusion on money:

The fact that every dollar, whether coin or paper, is practically interconvertible with 25.8 grains of gold bullion—mere merchandise—fixes the purchasing power of the dollar.

In other words this 25.8 grains of gold bullion constitutes the so-called gold standard of value.

There is only one standard of value in a money system, and it has long since been fully recognized and indorsed by leading economists and recognized authorities on money. Concisely stated, the standard of value in a money system is constituted by the number of dollars in the system. The value of the dollar is made by the demand for

dollars, demand operating against the supply. Therefore, if the dollars are few and the demand great the standard of their value is high and their purchasing power great. And if the dollars are many and the demand small the standard of their value is low, and their purchasing power small.

Thus the value of the dollar or money unit is made by the demand operating against supply. I quote from John Stuart Mill, Political Economy:

The value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value, and every diminution raising it in a ratio exactly equivalent.

John Locke says:

The value of money in any one country is the present quantity of the current money in that country in proportion to present trade.

Sir James Graham says:

The value of money is in the inverse ratio of its quantity. The supply of commodities remaining the same.

John Stuart Mill says:

Alterations in the cost of the production of the precious metals do not act upon the value of money, except just in proportion as they increase or diminish its quantity.

Again: In the case of metallic currency the immediate agency in determining its value is its quantity, Prof. Stanley Jevons declares:

There is plenty of evidence to prove that an inconvertible paper money, if carefully limited in quantity, can retain its full value. * * * Such is the case with the present notes of the Bank of France.

Prof. Fawcett says:

By limiting its quantity (paper money) its value in exchange is as great as an equal denomination of coin or of bullion in that coin.

Alexander Baring, of Baring Bros., says:

The reduction of paper would produce all these effects which arise from the reduction of money in any country.

Recardo states:

A well-regulated paper currency is so great an improvement in commerce that I should greatly regret if prejudice should induce us to return to a system of less utility. The introduction of the precious metals for the purposes of money may with truth be considered as one of the most important steps toward the improvement of commerce and the acts of civilized life, but it is no less true that with the advancement of knowledge and science we discover that it would be another improvement to banish them again from the employment to which during a less enlightened period they had been so advantageously applied.

Having shown that $1 is the money unit of the United States and that money is the creation of law and that there is no such thing as real money, unless created by the sovereign act of the people, and that the standard of value or purchasing power of a dollar depends upon the present quantity of the current money in the United States in proportion to present trade, I will now show the exact position and how gold entered into our money system in order that there may be no more mystery surrounding it.

The Troy pound, to regulate the coinage of metal into money, was obtained from England in 1827. It is made of brass and now kept in the mint in Philadelphia and constitutes the standard weight by which our coinage is governed and the commodity gold, turned into

money by the highest act of the sovereignty of a people, making it lawful money of the United States, a full legal tender for all debts, public and private, and a universal order for all things on sale and all services of the people.

I desire to make indelibly plain and rivet in the minds of the people that the Troy pound is simply a standard by which the metal, gold, is weighed when coined into a dollar, or measures how many grains of gold will be equivalent to a dollar, or money unit, according to law. It weighs this gold just as it would weigh any other material substance and just as the yardstick would measure 36 inches of cloth or anything else. The metal gold does not measure the value of the dollar. The purchasing power of the dollar is measured by the dollar and the price of the things it will buy.

The value of the dollar when compared to other things depends upon the quantity of dollars out. Therefore the quantity of dollars constitutes the standard, affecting general prices, and not the gold in or out of the dollar.

I repeat, if the dollars in a money system are few in number, the standard of their value will be high and the price or value of other things low. If the dollars be many, the standard of their value will be low and the prices of other things high. It is only necessary to state this to prove it.

This brings us to the inevitable conclusion: That the number of dollars, or money units, constitutes the standard of value of each money unit, or dollar, in a money system, and fixes the purchasing power of the dollar, or money unit. This absolutely annihilates the false conclusions dogmatically expressed by Morgan, Fisher, and Laughlin, viz:

> The fact that every dollar, whether coined or paper, is practically interconvertible with 25.8 grains of gold, mere merchandise, fixes the purchasing power of the dollar. Every dollar must be worth what 25.8 grains of gold is worth, no more and no less.

It would be just as logical to hold that a yardstick made of gold would make the gold in the yardstick a standard of length, instead of the 36 inches in the yard being the standard of the yard, as applied to length; or that if you destroy the gold yardstick and only had yardsticks made of steel the "standard" of length, 36 inches, would be destroyed. It would be just as reasonable to contend that the clock made of gold would constitute gold the "standard" of time or that the bushel measure made of gold would constitute gold as the "standard" of its cubical contents.

The yardstick in the Bureau of Standards at Washington is declared by law to be the model for all other yardsticks and is made of bronze, but bronze is not a "standard" of length. Stripped of sophistry, when applied to money, it means when gold, the metal, is coined into a dollar of the United States the said dollar shall contain in weight so many grains of gold.

The troy pound kept in the mint is simply the "standard" weight for weighing the gold bullion.

A dollar, or money unit, does not change. Fifty cents can not be $1, or 200 cents be $1, any more than 18 inches could ever measure a yard or 72 inches be less than two yards.

The professors of political economy in the great universities who advocate this false theory of money are confounding the idea of a

dollar, or money unit, the legal creation of a sovereign power, with the "standard" weight, a material substance, used as a model by which gold is to be weighed. They are intellectually dishonest is the most charitable construction that can be placed upon the position they now take upon this most important economic question vitally affecting all the people.

I would earnestly impress upon the minds of this committee the vital importance of the difference between the dollar, or money unit, and the metal, gold.

The dollar, or money unit, is the creation of the sovereign power of the people, and binds them and their property to protect its value and to continually redeem it at par, or 100 cents on the dollar. In other words, it is a legal tender for all things on sale, all services for hire, and all debts, public and private. This means that 96,000,000 people in the United States stand ready to receive it at 100 cents on the dollar. In fact, its money value, which is its purchasing and debt-paying power, I repeat, would be the same if it did not have one grain of gold in it.

To say the equality, validity, value, or purchasing power of the full legal-tender dollars or money units of the United States, redeemable all alike, depend for their redemption at par upon the 25.8 grains of gold in the dollar or money unit is an unthinkable absurdity. Every legal-tender dollar or money unit in this country is redeemable in $134,000,000,000 of the national wealth, including all the gold and silver that we now have in the United States or will ever have, and the services of over 96,000,000 of the most enterprising and productive people in the world.

If our mints were closed to the coining of gold into money, you could weigh out 25.8 grains of gold and in six months thereafter it would not be worth 50 cents, yet the purchasing power of the dollar or money unit would be unchanged. When the sovereign power of the United States embodying the will of the people says this is a lawful dollar or money unit, and thereby pledge $134,000,000,000 in the national wealth and the resources of 96,000,000 people for its redemption at par, or 100 cents on the dollar, you have the best and soundest money unit in the world without one grain of gold in it.

To make it more explicit and so plain that no man can refute it, the lawful money of the United States is created by the sovereign power of its people, each dollar or money unit is complete in itself; each has the same value, the same purchasing and debt-paying power; their equality or parity is necessarily the same, as each has its redemption alike in all the property and services of the people without discrimination.

The parity or equality is cemented together by an unlimited and universal demand for dollars of the United States, all doing the same work and having the same purchasing and debt-paying power.

The demand for dollars of the United States is the greatest ever known in the history of the world—bringing a premium over gold money in Europe.

Ninety-six million people in this country place an incessant and unending demand upon them for their services and support.

Over 60 billion of debts demand them for payment; the perpetual call for interest demands them without end.

Twenty-five billion of internal commerce demand their services.

Europe demands hundreds of millions of our dollars to settle her balance of trade with the United States. It is conclusively shown in Daniels on Real Money that gold is a handicap instead of a help to international trade.

I would ask these jugglers of words, "Is not this demand sufficient to preserve the parity or equality of our dollars?"

In conclusion, I would impress upon the mind that a dollar is not a debt, but a redeemer of debt; therefore one dollar should not be redeemed in another dollar.

This idea is an invention of the money lender and manufacturer of debts: A reversal of all sound ideas of finance that ever existed. It is based on the absurdity that a dollar is a debt. A dollar has never been a debt. It is not made for redemption, but is made to be a redeemer.

If the paper dollar is treated as a debt, then the gold dollar must be treated as a debt, else the one dollar is not at a parity of function with the other dollar; then one has the quality that the other does not possess, and the two dollars are not treated on equal terms.

There is no sound and stable money system unless every money unit in that system is legally equivalent to every other money unit.

I would ask these gentlemen who say they believe that 25.8 grains of gold fixes the purchasing power of the dollar and constitutes the standard of value in the United States to answer the following questions:

First. If the $750,523,267 of nonlegal-tender bank notes—credit money—were withdrawn from the money system of the United States what would be the effect upon values? There is only one answer: Any man of average intelligence knows there would be a great contraction of the circulating medium, a consequent fall in prices, a tremendous increase in the purchasing power of the dollar, ending in a money panic.

Second. If the $727,886,731 of silver currency, now debts redeemable in gold, and the $344,221,741 of nonlegal-tender greenbacks were withdrawn, what would be the result? A money panic would follow sufficient to create financial ruin and repudiation throughout the country and the present standard of values would be absolutely destroyed.

Is there a man who still believes that if the silver currency, greenbacks, national-bank notes, all nonlegal-tender currency, were taken out of the money system of the United States there would be no fall in prices of other things, and that 25.8 grains of gold would still fix the purchasing power of the dollar or money unit? If so, no other term would describe him than a "gold monomaniac."

To demonstrate how this false economic theory of money has worked in the interest of those who created and maintain it, money lenders and manufacturers of debts, and to the greatest injury of the people, I call attention to the following statement from the last Report of the Comptroller of the Currency, 1912, page 50, viz:

June 14, 1912: Cash holdings of the 25,195 all reporting banks, $1,572,953,479.43.

Of this amount, only $881,936,455 was gold, or legal money. It is shown on page 49, same report of the Comptroller of the Currency, that upon this narrow foundation of real money these banking cor-

porations have invested $5,358,800,000 in bonds and other securities, and then have made loans and discounts to the people, aggregating the enormous sum of $13,953,600,000. In other words, these banking corporations, after investing in bonds and stocks more than five times as much money as they had in their business, used their bank-credit substitutes for money, and manufactured $13,953,600,000 of interest-bearing debts against the people, held alone by these banks.

I will now give a typical illustration of how it is done.

There is, we assume, $1,000,000 of actual cash money in circulation in a community. A bank is opened by a few men who say to the people:

More business can be done in this community, and you need more money with which to do it. Put your million dollars in our bank and we can arrange to accommodate this demand for more money with which to do it.

The $1,000,000 is deposited in the bank. Several of these men then apply to the bank for a loan to establish a cloth factory. The banker approves the loan, and requests them to leave their notes for the amount, and securities against the property, places the amount to their credit, and gives them a check book for them to check against the amount, to pay for their machinery, etc.

Now, since all classes in the community are depositing their money in the bank, little money will go out in payment for these checks. Thus a great many loans can be made in this way, and new enterprises started and men put to work.

Plans are then submitted to this banker for ironworks, lumber-yards, etc. They look to be safe and sound loans, and are made by the banker to the amount of half a million dollars, and they leave their notes and securities, and are allowed to check on the bank to that amount in payment for their needs in establishing these enterprises.

Everybody is now leaving their money and checks on deposit with the bank. The half a million of checks drift back to the bank in the course of a few days, and are not cashed, the money being left with the bank for safety.

More borrowers come in and leave their notes and mortgages and borrow, and the amount is placed to their credit in figures, and they also take their check book with them to check up on same.

The banker has now loaned out the $1,000,000, and only enough money has been taken out of the bank to meet the small necessities of those bringing in the checks, and while these small amounts of cash are going out other small amounts of cash are coming in, and the two about balance each other.

The banker has now loaned this million once, and drawing interest on it and still has it all in his bank, for the people who have brought in the checks against this million that had been loaned have not cashed them; in other words, have left them on deposit. So the banker when he makes up his "bank statement" for the United States Treasury Department reports that the bank has on deposit, not $1,000,000, but $2,000,000. And those who read this statement refer to this as evidence of the prosperity of their community, since the bank began doing business with them.

Other industrious and enterprising men come along to establish new enterprises, and borrow on stocks, bonds, and other securities. The banker sees they are good and makes the loans.

Checks are written to the extent of another million. They come back to the bank and are put on deposit, the cash going out being balanced by the cash coming in.

Now, the banker has loaned the million twice and is drawing interest on it twice at the same time. Another million is loaned in the same way. The third million is loaned, and only $1,000,000 is being used as the basis of all these loans, and the banker is drawing interest on the million dollars three times over at one and the same time.

In the bank's statement sent in to the United States Treasury it would now report deposits of four million. It makes no distinction between the deposits of actual cash and the deposit of checks drawn against the bank's credits.

These loans increase under this process until the bank draws its 6 per cent interest as much or more than 10 times over on every million dollars, or over 100 per cent on the actual money in the business.

While the people refer to the prosperity of their community as evidenced by the large deposits in the bank, the actual situation is this: The enterprises in this community have all been mortgaged by this process, and the people are working to pay interest and principal on these debts manufactured on them by these bank credits. They are, in fact, financially enslaved and working for the credit money lenders.

The banker or manufacturer of debts now grows most important, and talks about his manufactured loans out of nothing as "accommodations," and now advises and dictates to those doing the borrowing from his institution. Gets let in on the ground floor on promotion schemes, assumes a patronizing and advisory position to everybody else, considers everyone else's business his business and his own business no one's but his own.

In the larger cities the clearing-house association of banks is the modus operandi. The New York Clearing House is a typical illustration in its charging off of checks one against the other to avoid paying out money. Report of the Comptroller of the Currency, 1912, page 775: Clearing-house exchanges for year 1912, $96,672,300,864; balances settled in money, $5,051,262,292; the per cent of balances settled to exchanges, 5.22 per cent. Thus $100,000 of incoming checks on a bank is paid with only $5,200, and this is not paid out to the depositors, but transferred from one bank to another.

This is the process by which the banking institutions of the United States, with only $881,936,455, or less than $1,000,000,000 of real money in hand, have manufactured, by the use of their credit substitutes for money, nearly 14 billions of debts against the people, payable to these banks, principal and interest, in money.

Present monetary condition of the United States as developed by the dealers in debts: Total amount of legal-tender money, gold, in the United States, Report of Director of Mint, 1912, page 243, $1,616,538,976; debts, nonlegal-tender currency, redeemable in gold, $1,822,631,739.

On the gold-basis theory that every other dollar in the currency system is interconvertible with the gold dollar, these demand obligations would exhaust more than the entire gold supply. As the banking corporations have in their possession $881,936,455 of this

gold, and $940,695,284 of this credit currency convertible into gold, it is evident that they control the entire money system of the United States. A mere statement of these facts proves this control. J. P. Morgan, the recognized authority among the bankers, practically admits this, as evidenced in his testimony under oath December 19, 1912:

Question. If a man controls the credit of a country, he would have control of all its affairs?

Mr. MORGAN. He might have that, but he would not have the money. If he had the credit and I had the money, his customer would be badly off.

* * * * * * *

Mr. MORGAN. What I call money is the basis of banking.

Question. But the basis of banking is credit, is it not?

Mr. MORGAN. Not always. That is an evidence of banking, but it is not the money itself. Money is gold and nothing else.

He admits that those who have control of the credit of a country would have control of all its affairs. He then states that those who have control of the gold would have control of its credit, which is a self-evident fact.

Having shown that the gold basis of our money system is false, the whole system is false.

Restricting money to gold has been used successfully so far by dealers in debts as a subterfuge to prevent the Government from issuing its real money—redeemers of debts—in order that they might issue a cheap credit substitute to manufacture debts upon the people, and have the debts paid back in money.

It should be remembered that in the operation a debt is created against the borrower by loaning him the bank's credit instead of money, and that there is no corresponding amount of money in existence represented by this substitute in which the debt can be paid. Therefore the scarcity of money in comparison to the debts demanding payment necessitates constant borrowing, refunding, and multiplication of debts and interest and other charges on the people.

A counterfeiter is prohibited by law from creating that which he passes as money, because, in passing it to others, he is getting from them something of value for that which cost him nothing. Why, then, should banking corporations be allowed to create a substitute for money, bank credits, etc., which have cost them nothing, yet when loaned to the people can only be paid back, principal and interest, in money which the borrower has to obtain under the most adverse conditions before he can ever pay the debt, if at all, in money?

Under this debt-creating system, money, the medium of exchange, the most important factor in civilization, has been transformed into a gigantic system of oppression. It absolutely perverts the correct economic system, that money to circulate and not money to loan is what the industrial well-being of the world needs. Out of this perversion comes the pernicious and infamous theory that money shall be based on debts.

The following is the result of this false economic money system on the people of this country: Manufactured debts—National, State, municipal, corporate, real, and personal—amounting to not less than $90,000,000,000.

Upon a 5 per cent basis, this would be an annual charge of $4,500,000,000 a year upon the people in interest and dividend charges alone, to say nothing of payments on the principal. These interest and dividend charges of $4,500,000,000 can be paid only in two ways, viz: Adding it to the cost of the things that the people buy and use, or reducing the price of the labor which produces them. No other term can properly describe this system than as being a monumental fraud perpetrated upon an unsuspecting people that no power on earth can much longer conceal from them.

This false economic system of money has been maintained by the dealers in debts by assuming the intrinsic value of gold; then, the importance of maintaining the parity in value of gold and silver; next, the establishing of the so-called gold standard; and now the false contention that 25.8 grains of gold is the unit of value and fixes the purchasing power of the dollar. Having assumed these premises sound, they decline to discuss them further and proceed to reform the credit superstructure in which they are most interested, the banking and currency system, and object to saying anything about the false foundation upon which the whole system must rest.

In order to reform this banking and currency system, they again assume false premises, as follows: That a dollar is a debt, and has to be redeemed in gold alone in order to be a redeemable dollar; and that a dollar redeemable in over $134,000,000,000 of national wealth, including gold, is an irredeemable dollar. Also, that full legal-tender dollars, secured for their redemption upon the entire wealth and services of the people of the United States, and redeemable in everything they possess (including debts and gold), is fiat money, unless redeemable in gold alone. The logical deduction from this would be that, by lessening the security back of a dollar or money unit, its value would be increased.

This is all based upon the false theory that a dollar is a debt to be redeemed, instead of a redeemer. When you put a perfect circulating money unit of value in a money system, it is not a thing supposed to be redeemed in any one thing. It circulates and stays out, as a part of the circulating medium, redeemable in every thing.

To illustrate: A has a $100 legal-tender note. B has a horse, which A values at $100, and he closes the purchase. The horse redeems the $100 note, so far as A is concerned. B then desires to pay a debt of $100, and the $100 note is then redeemed by the debt so far as B is concerned, and the process goes on, ad infinitum, these legal-tender dollars being universal orders for all things on sale, all services for hire, and the ultimate of payment for all debts.

It should be remembered there can be no sound and stable money system unless every dollar or money unit in that system is legally equivalent to every other money unit. Therefore, all money issued by the Government should clearly be made a legal tender for private debts as well as for public debts. Otherwise, it places it in the power of the people to repudiate individually what they have done collectively, and they would not stand on the same footing with respect to their Government or to each other.

Money, to be real, must have upon it the impress of the law of legal tender, delegated to Congress by the sovereign States. This exclusive power to issue money as provided in the Constitution of the United States, is so imbedded in our democratic form of Govern-

ment, and so essential to its perpetuity and the well-being of its people, that there would be little left if this highest act of sovereignty was destroyed or transferred to banks of issue.

The Supreme Court of the United States has long since decided this exclusive right of the Government, as applied to both coin and paper money, as follows (U. S. Rep., vol. 110, p. 447):

This position is fortified by the fact that Congress is vested with the exclusive exercise of the analogous power of coining and regulating the value of domestic and foreign coin; and also the paramount power of regulating foreign and interstate commerce. Under the power to borrow money on the credit of the States, and to issue circulating notes for the money borrowed, its power to define the quality and force of those notes as currency, is as broad as the like power over a metallic currency under the power to coin money, and to regulate the value thereof. Under the two powers, taken together, Congress is authorized to establish a national currency, either in coin or in paper, and to make the currency lawful money for all purposes as regards the National Government or private individuals.

The United States Supreme Court, speaking of the same power, declares (Legal Tender cases, 12th Wall.):

It was for this reason the power to coin money and regulate its value was conferred upon the Federal Government, while the same power, as well as the power to emit bills of credit, was withdrawn from the States. The States can no longer declare what shall be money, or regulate its value. Whatever power there is over the currency is vested in Congress.

By the self-confession of bankers and financiers who have grown rich during which time they have shaped all legislation on money, they now agree that the present system (which means a gold basis, with national banks of issue) is a dismal failure.

Under the operation of banks of issue and a gold basis for the redemption of credit money, promises to pay, we find all Europe staggering under a mountain of debt created through, and manufactured by, the use of credit substitutes for money devised by banks.

These debts are then made permanent and ever increased by the funding schemes put in operation, until there is little left in the way of an equity above the assessed value of their national wealth.

If a country, State, or Nation, be bonded for all the assessed value of its property, the bondholders, and not the people, own it.

The reason now given by bankers to reform the banking and currency system is the need of "more elasticity." Elasticity is the curse of the present credit money system, yet they want more of it, because it is most profitable to them.

It is now shown that with only $1,616,538,976 of real money (gold) in the money system they have, by the use of credit substitutes for money, pyramided $13,953,600,000 of debts against their borrowers, and with $750,472,349 of their credit currency (national-bank notes) injected into the system it can readily be seen that the whole system is made up of elastic inflation, invisible credit, and india-rubber currency.

By extending or calling in bank credits, they can inflate or contract the currency.

If they desire to create a fall in prices or influence politics, give an object lesson to an administration, it is only necessary for them to call in their bank credits and retire a part of their bank-note circulation and it is accomplished.

Having reached the limit of this credit inflation, and not yet being satisfied, they now demand an asset currency in order that they may

have the use of more of this india-rubber money under the attractive plea of an elastic currency.

In the meantime the people are being deceived by official reports from the United States Treasury, circulated through the press, that the people have on deposit in the banks, June 14, 1912, $17,024,067,-606.89 of money, when, as a fact, it is almost entirely made up of debts owed the banks by the people, being the proceeds of loans entered on their books as if it were cash deposited in the banks by the people.

This immense sum of debts owed the banks by the people is used as an evidence of the great prosperity of the country; again used as an evidence of prosperity in making up the banking power of the United States to the grand total of $22,548,706,835 for 1912. Report of the Comptroller of the Currency, page 42, where he states:

> Since 1900 the banking power of the country has more than doubled, the increase being 111 per cent.

As the debts against the people increase and they become more and more financially enslaved, the banking power increases. Such a system is good for the banks and dealers in debts, but means untold suffering, poverty, bankruptcy, and ruin for the people.

I respectfully submit the following as absolutely essential to a proper reform of our money system on sound economic principles.

First. Absolute control of the monetary system by the Government.

Second. Government supervision over all banks and financial institutions doing business with the public and dealing in the circulating medium of the country.

Third. The issuing of money being a Government function means the issuing of full legal-tender money, not an asset currency or debts, redeemable in gold, as a circulating medium. The only effect of which would be the pyramiding of more debts upon the people by the use of credit substitutes for money.

It simply means the issuing of debts instead of dollars as a circulating medium.

Fourth. There shall be no further issue of circulating notes by any national bank beyond the amount now outstanding. The Government will offer to purchase at a price not less than par and accrued interest, the 2 per cent bonds held by national banks and deposited to secure their circulating notes. The Government shall take over these bonds and assume responsibility for their cancellation (upon presentation) of the outstanding notes secured thereby. The Government shall issue, on the terms herein provided, its full legal-tender notes, lawful money of the United States, as fast as the outstanding notes secured by such bonds, so held, shall be presented for redemption, and may issue other notes from time to time to meet business requirements, it now being the policy of the United States to retire as rapidly as possible, consistent with the public interest, bond-secured circulation, and to substitute therefor real lawful money of the United States in place of banks-of-issue promises to pay—credit money. All notes issued by the Government shall be full legal tender, and payable for all debts, public and private, and constitute a first lien upon all the assets and services of the people of the United States for their redemption.

Fifth. The following amendment:

And be it further enacted, That all the money heretofore issued by the Secretary of the Treasury of the United States, authorized by act of Congress, shall be substituted by lawful, full legal-tender money of the United States, thus destroying forever the operation of the endless-chain process upon the United States Treasury.

Sixth. That no banking or other corporations or association of men shall be allowed to issue any kind of money, currency, or any credit substitute for same.

I will now call attention to the warnings of our great statesmen, so long neglected by the representatives of the people:

1. William Pitt, chancellor of the exchequer of England, predicted this result when the First (so-called) Bank of the United States was established by Alexander Hamilton. He stated:

Let the American people go into their debt funding schemes and banking systems, and from that hour their boasted independence will be a mere phantom.

2. Thomas Jefferson declared of the money power of his day:

I hope we shall crush in its inception the aristocracy of our moneyed corporations which dare already to challenge our Government to a test of strength and bid defiance to the laws of our country.

The great founder of Democracy declared:

"Carthago delenda est"—bank paper must be suppressed and the circulating medium must be restored to the Nation, to whom it belongs. Let banks continue if they please, but let them discount for cash alone or for United States notes.

3. Salmon P. Chase, ex-Secretary of the United States Treasury, knew the present conflict would come, and said:

My agency in procuring the passage of the national-bank act was the mistake of my life. It has built up a monopoly that affects every interest in the country. It should be repealed. But before that can be accomplished the people will be arrayed on one side and the banks on the other in a conflict such as we have never seen in this country.

4. Horace Greeley saw the pernicious principle concealed in the system, and said:

We are careful to conceal the ugly fact that by our iniquitous monetary system we have nationalized a system of oppression more refined, but none the less cruel, than the old system of chattel slavery.

5. Abraham Lincoln clearly anticipated present conditions. He said:

I see in the near future a crisis arising that unnerves me and causes me to tremble for the safety of my country. As a result of the war, corporations have been enthroned, and an era of corruption in high places will follow and the money power will continue its sway by appealing to the people until all wealth is aggregated in a few hands, and the Republic destroyed. I feel more anxious for the safety of my country than ever before, even in the midst of war.

6. Henry Cernusche, years ago, denounced this gold-basis system by saying:

Pernicious in Europe, pernicious in America, pernicious in Asia, the monometallic gold scheme has produced, and can produce, nothing but disaster.

The time has at last come to establish a money system on sound and correct economic principles. Bankers, money lenders, dealers in debts, should not be taken as authorities on this subject. Their personal interest in the banking and currency system should disqualify them as witnesses. It is obvious that their interest and those of the people in establishing a money system are absolutely antagonistic.

If any of the members of the committee would ask those representative bankers whether they were in favor of reforming the money system to enable the people to pay off their debts, their logical answer would be no, for the reason that their business consists in dealing in debts, and the more debts the more money they obtain from the people.

Is there anything in the record of these high financiers, or the methods they have adopted in manufacturing debts upon the country, calculated to inspire the confidence of the people in any money system that would meet with their approval?

There is no mystery surrounding an honest money system established on sound economic principles. The mystery and dishonesty begins when one dollar is made the basis for creating from eight to ten imaginary credit dollars, drawing interest from the people and controlling the money system of the country in the interest of manufacturers and multipliers of debts.

The ruinous effects of this system can no longer be concealed from the people, who now feel daily the intolerable burden in the high cost of living. The great sovereign power of the 96,000,000 people must now be felt and reckoned with. No more makeshift legislation on money can save the people's representatives from their direct responsibility, and their votes will now determine whether they are with or against the people.

A majority of the 6,500,000 people who voted for Bryan believed the issuing of money to be a Government function.

The 4,000,000 people who voted for Roosevelt indorsed the plank in the Progressive Republican platform declaring that the issuing of money is a Government function.

The great army of real workers, the American Federation of Labor, believes the issuing of money to be a Government function.

The vital question is, Shall the Government any longer issue debts redeemable in gold as a circulating medium and allow banking corporations to issue their credit substitutes for money; or shall it exercise its sovereign power, as provided in the Constitution of the United States, and issue real money and regulate the value thereof in the interest of all the people?

Having exposed this gold basis scheme upon which banks issue their credit substitutes for money, in the name of the American people I call upon Congress to do away with this gold basis credit money system, establish property as the thing of value, money as the medium of exchange, make man the master above the dollar, free the people from financial bondage, and save this Republic.

The CHAIRMAN. We will now adjourn until 11 o'clock to-morrow morning.

Senator REED. I want to make a statement before we adjourn. There is a little paragraph in the afternoon Times that reads this way:

SAYS CURRENCY BILL CAN NOT BE RUSHED.

Declaring that the currency bill was too important a piece of legislation to be rushed through Congress at the fag end of a special session, Senator Reed, of Missouri, insurgent Democratic member of the Senate Banking and Currency Committee, to-day predicted that the measure would not become a law until next session. Reed called at the White House to-day, but did not see the President.

Now, Mr. Chairman, I am not given to denials of newspaper statements, but I do not want an article of that kind to go out without

correction. I want to be very kindly in what I am going to say about it at this time.

I made no such statement; I made no statement that could fairly be construed to mean what is contained in this article. I said, when I was asked how long the committee would consider this bill, that I could not state, but that the measure was important, and that the committee would give it due consideration; that I could not tell when they would conclude their labors; that I knew that all of the committee were willing to sit here to the extent of their physical powers to consider this measure and report a currency measure as soon as they could, having due regard for the importance of the subject.

I hope that I am through with this sort of denials. I want to say now and here that no newspaper man has any right to characterize me as an insurgent Democrat. I am saying that to the members of the press and the gentlemen who are present here to-day because I hope it will not be repeated.

(The chairman presented the following additional statement of Mr. F. E. Marshall, of New York, N. Y., with the request that it be incorporated in the record:)

The important, and to the minds of many, the doubtful and unwise provisions of this bill is that part which refers: First, to note issues; second, to the reserves; and third, to rediscounts.

My apprehension at first was that the provisions of the bill would cause immediate contraction of credit. In other words, it would make the banks contract and call loans faster than conditions would justify and that this contraction and the possible easy credit, about which much has been said, would bring about inflated currency. I will admit that both of these were uppermost in my mind, but I am glad to say that after reading the bill and also the many speeches, I have been able to construe it with a clearer vision and to adjust it to conditions, I believe, with more definite and safer results. For the past few days I have read the speeches of different Members of the House with much interest and profit, and especially those of Mr. Glass and Mr. Hayes, representing opposite sides of the House, and I am much pleased to see that they are not far apart.

I am sorry to see, from the figures presented by Mr. Glass, that it will be necessary for the banks in the reserve cities and central reserve cities to become borrowers, in order to comply with the provisions of the bill, but it is much better that these banks should become borrowers than the country banks, for it is easier for them to adjust themselves to conditions and their assets are more liquid than the country banks. These figures, however, are based on the theory that the transfer is to be made at once, but in order to make it easy and step by step, the bill gives three years for the banks to adjust themselves. From my knowledge of the assets of the city banks, I feel safe in predicting that they will meet the requirements, without borrowing and without great inconvenience and that they will continue to do business in the future as in the past.

It has been said about mobilizing reserves, but the past justifies the remark in saying that that is really the big trouble, the reserves have been mobilized too much, and especially in New York City, where, when trouble comes, it is big trouble, and when New York gets in trouble she has nowhere to go for help and her only recourse is to close down and say "no," and when they do so, it seems necessary for every bank throughout the United States to do the same thing; therefore, the necessity for returning the reserves to the different parts of the country where they are owned and belong. I am prepared to believe that it is the first step in the right direction, in more ways than one. Among them, I might say, that it will have a tendency to squeeze out the money now absorbed in loans carrying common stocks, issued without value and now listed and traded in on exchanges for the purpose of giving them a borrowing value. If the money now absorbed in loans of this character can be distributed in the legitimate channels of business, I feel certain that we will never have to resort to the provisions of this bill for note-issuing purposes, except a possible rare occasion of extreme stress, certainly not for the ordinary business—even during crop-moving season.

If, after this important bill becomes a law, you gentlemen can find a way to stop the issue of securities, the value of which is "wind and water," and I will go further and say, cancel many now issued or assess them on the ground of impaired capital, so as to have the dollar value behind all issued securities, you will have placed our country as your debtors for many years to come.

I am firm in the belief that this bill, while not perfect, wisely administered is safe and sound. The only argument that seems to be put forth as to the doubt of it being wisely administered is the Government control, and although I am a banker, I freely admit that this is one of the safe and wise provisions of the bill. In the recent investigations I believe it was generally admitted that the concentration of money and credit in New York, if it had not already reached the danger point, that it had gone far enough, and if I remember rightly some one stated, that especially it would be dangerous if it should get out of the hands that are now in control. I believe also some one of the New York bankers admitted that the cause of this concentration of both money and credit was the fault of our currency laws. If that is a fact, then it should be corrected, and the sooner the better, even though it may cause a little trouble and inconvenience, but this we are all used to. It occurs to me to say that every time we get in trouble we have enough confidence in the Government, whichever party is in control, to run to them for help, and we have never called in vain. Therefore, if the Government is to be depended upon by us and become responsible in a way in times of trouble, why not take them in partnership with us and ask them to travel with us during times of peace and plenty? I believe the shareholders of the reserve banks should have representation on all boards, advise with and become responsible with the Government's representation for the business management. To carry out the business, as provided for in this bill, is simply a business transaction, and I have full confidence that the men who may be selected by the President of the United States and the shareholders of the Federal reserve banks will meet the responsibility with that care and cautious wisdom that is necessary to all successfully managed businesses, whether banking or otherwise.

Now, Mr. Chairman, with these remarks on the bill in general I am going to ask the liberty of making a few suggestions in the way of changes in the detailed operation of the bill and also to ask a few questions for my own information.

SEC. 7. *Division of earnings.*—Dividends at 5 per cent until surplus equals 20 per cent of the capital, then dividends at the rate of 6 per cent per annum. Balance of earnings to be equally divided between the United States and the depositors, as provided in the section. I, however, think it would be well to create an undivided profit account, in addition to the surplus fund—say to the amount of 10 per cent of the capital. It would also seem but fair to me that the surplus and undivided profit account should one-half belong to the stockholders and should be so divided in case of liquidation.

SEC. 11. *Federal reserve board.*—I suggest that this board consist of seven members, composed of the Secretary of the Treasury and four members to be chosen by the President of the United States, at least two to be experienced bankers and two members to be chosen by the stockholders of the Federal reserve bank, all to be with the advice and consent of the Senate. This will give the Government five members and the shareholders two; the Government, however, having a majority of the board, but the shareholders would have representation, which would seem to be but fair. In the board of directors of the Federal reserve banks, the shareholders elect a majority, six to three. In this case the shareholders have a majority, but all have representation. This change would drop the Secretary of Agriculture and the Comptroller of the Currency from the Federal reserve board. While I fully realize that their presence on the board is desirable, yet I also fully realize that the gentlemen composing this board hold a very responsible position and it will justly require all of their time and attention. They will, no doubt, find it necessary to visit the different reserve banks from time to time and will find it advisable to make their stay long enough to become acquainted with the conditions and detailed operation of the banks, and I very much doubt if the positions now held by the Secretary of Agriculture and the Comptroller of the Currency would admit of them giving the time to this position that it will require of each and every member of the board.

SEC. 13. *Federal advisory council.*—It seems to me that this is unnecessary and not required. The close and active relations of the Federal reserve board and the board of directors, it would seem, meets this requirement, especially if the shareholders have two members on the Federal board.

SEC. 16. The Government should not charge interest on deposits, but should accept division of profits in lieu of interest, the same as other depositors.

SEC. 17. Page 30: Collateral security to protect issue of notes should have 20 to 25 per cent margin, and it would seem to me that this security should include United States bonds and other securities that might be held by Federal reserve banks.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 16

[Printed for the use of the Committee on Banking and Currency]

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GOVERNMENT PRINTING OFFICE
1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman*.

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

In this section, page 31, it refers to the redemption of note issues that shall be charged against Government deposits. I would not give this privilege, as it seems to me no bank should be given the privilege to make a charge against a Government deposit account. The 5 per cent redemption fund with the Government for the redemption of note issues I would have in addition to the 33⅓ per cent required reserve to be carried in the vault.

Page 33, line 13: Collection of checks and drafts. I predict this will be a very heavy and expensive operation and will absorb a large amount of money.

Sec. 20. *Bank reserves.*—Is it permissible for a member bank to keep an active account with a Federal reserve bank? In other words, a regular checking deposit account? Or, is the reserve deposit account to remain stationary and not subject to check of the member bank?

Sec. 21. *Five per cent redemption fund.*—If this is not to be accounted as a reserve in the future, will it not be reasonable to reduce it, say, to 2½ per cent? I suggest condition of redemption fund be looked into.

Sec. 23. *Examinations.*—Line 8, insert "Comptroller of the Currency" before "Federal reserve board"; also. after "Secretary of the Treasury," line 10.

Line 19: Salaries to be fixed by Secretary of the Treasury and Comptroller of the Currency.

Line 22: "Comptroller of the Currency," instead of "by the board."

Line 26: And also lines 1, 2, and 3 to be eliminated. Not reasonable or practicable.

Also, following lines 4, 5, and so on to be eliminated.

My idea being that all examinations of Federal reserve banks and member banks and national banks should be made by direction of and to the Comptroller of the Currency. All requests for special examinations by the Federal reserve board to be made to the Comptroller of the Currency, who shall have charge of all examiners and their work and the supervision of all banks. Regular examinations not oftener than twice a year? Special examinations as often as necessary and as requested by the Federal reserve board.

Sec. 25. *Transfer of stock.*—Line 15, page 43: It seems to me this should refer not to all stockholders, but only to officers and directors, without regard to limit of time of transfer.

Sec. 26. *Farm loans.*—Is this limitation of real estate loans to apply also to State banks and trust companies that are member banks? I am not exactly satisfied that the term of real estate loans should be 12 months. It will hardly meet the conditions, for such loans are usually made for a term of three to five years. I, however, am not prepared to recommend that commercial banks make any class of loans for this length of time.

Sec. 27. *Savings department.*—I would not have a separate capital for the commercial and savings department, but would have a regular savings department, with proper books and provide special investments for savings funds and reports should clearly set out the amount of savings deposit and the amount of investments carried for account of savings, but one capital should be liable for all deposits, both commercial and savings alike. I think it would be complicated otherwise.

QUESTIONS.

Are Federal reserve banks to be examined by the Comptroller of the Currency the same as national banks?

Page 26: *Discount of acceptances.*—Is this in addition to regular discounts?

Are all discounts to be passed on by the Federal reserve board, before they are taken by the Federal reserve bank?

Why not Federal reserve banks buy and sell first mortgage railroad bonds, and the same to be acceptable as security for note issues?

Sec. 18, page 34. *Circulation.*—Do I understand that national banks, organized in the future, are not required to buy Government bonds and take out circulation? If so, it would seem to conflict with section 19, refunding bonds, page 35, line 24. "Meanwhile every national bank may continue to apply for and receive circulating notes, based upon the deposit of 2 per cent bonds," etc.

Also referring to the latter part of the section, page 36, concerning clearing house and loan certificates. Would this apply and prohibit State banks and trust companies from issuing clearing house and loan certificates?

(Thereupon, at 5.20 o'clock p. m., the committee adjourned to meet to-morrow, September 26, 1913, at 11 a. m.)

FRIDAY, SEPTEMBER 26, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 11 o'clock a. m.

Present: Senators Owens (chairman), Hitchcock, O'Gorman, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. Mr. Blinn, the committee will hear you now. Please give to the stenographer your proper address, and your banking connections, so that it will appear in the record.

STATEMENT OF CHARLES P. BLINN, JR., OF BOSTON, MASS., PRESIDENT OF THE MASSACHUSETTS BANKERS' ASSOCIATION.

Mr. BLINN. My name is Charles P. Blinn, jr. I appear here as president of the Massachusetts Bankers' Association, and my banking connection is vice president of the National Union Bank of Boston.

Mr. Chairman, and gentlemen of the committee, a committee of four appear here from the Massachusetts Bankers' Association to-day by authority of the executive council of that association, which has had this currency matter under consideration. This committee has been appointed to present the views of the State, and in presenting the views of the State we in fact present the views of New England.

I had the privilege of attending the Chicago conference a few weeks ago, and that I might fairly present the views of my constituents, I addressed a letter to each member of the association. I embodied in it the letter which I had received from the chairman of the currency commission of the American Bankers' Association, and then went on to say:

> Your president will attend the proposed meeting and wishes to be in a position to express the views of all Massachusetts bankers upon the currency bill. Will you therefore let this matter have your immediate consideration and write the undersigned, giving an expression of your opinion of the bill, paying especial attention to the following features: First, organization and management; second, rediscount plans; third, reserve plans; fourth, note issues; fifth, provision for refunding United States bonds now held to secure circulation and United States deposits; sixth, does the bill meet existing defects in our credit and currency facilities; and, seventh, what will be the effect of the bill if enacted in its present form?

At the present time I should like to read to you some of the replies I received. The number was not large, but those that were received were fairly representative. The first letter I wish to read is from the Boylston National Bank of Boston, which is as follows:

> I have made an attempt to cover your seven points as follows:
>
> 1. Organization and management: Bankers should have a strong hand in the management.
> 2. Rediscount plan: I see no objection to the rediscount of notes having four months to run.
> 3. Reserve plan: Banks should be compelled to keep not more than one-half the amount specified in the bill with the reserve association without interest.
> 4. Note issues: The reserve association should issue the notes.
> 5. Provision for refunding United States bonds now held to secure circulation and United States deposits: Scheme for retirement of national bank circulation within 20 years accompanied by a substitution of 3 per cent bonds for twos is good, provided threes sell for par in the open market.

6. Does the bill meet existing defects in our credit and currency facilities? Fairly well in these two particulars.

7. What will be the effect of the bill if enacted in its present form? It would drive many national banks out of the system and prevent many State banks from coming in.

The First National Bank of Gardner, Mass., replies:

In reply to your circular letter of August 8 I would say that my opinion of the proposed currency bill is decidedly unfavorable. It seems to be premised on the theory that all national banks are borrowing all the time and although filled with the fear of centralization, it strangely arranges that the power of the system be centralized with a very few men. the majority of whom will be politicians.

I can not see why one central reserve bank operating under Government control would not fill the bill exactly as well as 12 or more regional reserve banks.

The plan for rediscount does not appear to me to be at all practical. When we have to borrow, we do so of our correspondent bank, which always accommodates us with absolutely no loss of time. In all probability we should never borrow of a regional reserve bank if we went into the system, preferring the present arrangement. The reserve plan will work immense injury to the country banks, actually depleting their loanable funds as well as their earnings.

As for the note issues, I doubt whether many banks would avail themselves of this method of increasing their funds; it would cost too much and take too long. It would seem as if the Government were in honor bound to redeem its 2 per cent bonds at par, as the necessity of holding them for circulating purposes is unquestionably the one reason for selling at par. On the whole, I should say that the bill was designed to prevent evils which are largely imaginary.

While there are undoubtedly some good features which should be incorporated in legislation. the inevitable effect of its passage will be to compel country national banks to surrender their charters and be reincorporated under State laws. That any action by the Government supposed to be favorable to institutions of its own creation should compel those institutions to surrender their charters would surely seem to be ill-advised and subversive of the general good of the financial community.

I have talked with a good many men in banking business regarding this bill and have yet to find any one who is favorably disposed toward it, notwithstanding some of those expressing the opinions were and always have been Democrats.

From the replies I received one was favorable, which I will read with your permission. It is from the Worcester Trust Co., of Worcester, Mass., and reads:

Replying to yours of the 16th relative to the proposed currency bill, would say that I think that the proposed bill is an improvement upon the existing law, and while it is not perhaps what many of us would like, it seems to me that under existing condition it is probably as good a law as we are likely to see passed, and I think it would be better for the bankers to assist in pushing the bill through than it would for us to oppose it, consequently I am in favor of the administration bill.

That was the only favorable reply that was received. I will not bore the committee by continuing to read these unless it is desired.

Senator Nelson. I ask that the letters may be incorporated in the record without reading.

The Chairman. Without objection, that will be done.

(The letters above referred to are as follows:)

No. 589.

The Essex National Bank of Haverhill, Mass.,
Haverhill, Mass., August 14, 1913.

No. 1. Serious objection to selection of members. Banking and politics do not mix well. Power of Federal reserve board is too arbitrary.

No. 2. The rediscount plan on the whole seems to be acceptable and should be of great importance to the banks.

No. 3. Will curtail the ability of country banks to extend accommodations to their customers.

No. 4. Better for the banks to provide the paper circulating medium under proper Government supervision.

No. 5. The provision of the refunding of the 2 per cent bonds will not be acceptable to the banks as there seems to be no guaranty that the 3 per cent bonds will be worth par.

No. 6. The bill does not meet existing defects in our credit and currency facilities.

No. 7. Believe it will drive many banks out of the national system.

CHAS. A. PINGREE, *President.*

THE MERCHANTS NATIONAL BANK,
Newburyport, Mass., August 11, 1913.

Mr. CHARLES P. BLINN,
President Massachusetts Bankers' Association, Boston, Mass.

DEAR SIR: Replying to your circular letter of the 8th instant, we are not favorably impressed with the proposed currency legislation.

We think the plan a clumsy one and likely to cause great inconvenience to the banks and their customers as well. We think the management should not be so largely political.

With regard to rediscounts, we feel that the short-time limits proposed will largely interfere with the efficiency of the plan. With regard to reserve, we are very much opposed to the program as outlined, believing that more discretion should be given the banks as to the percentage of deposits with the reserve association.

We believe that the note issue should be made by the banks under the supervision of the Government. We also feel that some provision should be made for refunding United States bonds now held to secure circulation and United States deposits, so as to avoid such serious losses on the part of the banks.

We have not completed our consideration of the bill, but think the carrying into effect of the provisions as originally announced would seriously interrupt the usual course of trade and so far interfere with the banking business as now conducted as to make it questionable as to the number of national banks that would remain in existence.

We should much prefer no change whatever to the enactment of the bill in its present form.

Respectfully, yours,

WM. ILSLEY,
Cashier.

MERCHANTS NATIONAL BANK,
Salem, Mass., August 9, 1913.

Mr. C. P. BLINN, Jr.,
President Massachusetts Bankers' Association, Boston, Mass.

DEAR MR. BLINN: I have your circular letter of the 18th instant. regarding the currency bill.

I have read so many views about the bill that I am afraid my mind is in as great a state of confusion as the bill itself seems to be. I find it difficult, therefore, to answer your questions definitely by number, but will try to give you a slight hint of my views.

No. 1. It would seem to be clear to almost any business man that the organization and management of any Federal reserve bank system should be kept out of politics and handled by men who are familiar with banking practice.

No. 2. It seems to me that rediscounts should be made voluntarily and not forced, and that the rate of interest should be fixed by conditions existing at the time and at the place where such rediscounts are made or needed.

No. 3. While I do not feel that the criticism of the bill as to reserve plan should be too rabid, yet the present plan of reserve agents and central reserve agents seems to have worked pretty satisfactorily for half a century.

No. 4. I believe that note issues should be made by the banks and not by the Government.

No. 5. Such provision should be made for refunding United States 2 per cent bonds as will insure that the banks shall receive at any time, now or hereafter, their full face value, and the provision should be such as will insure the market value of the two to be maintained at par.

No. 6. It does not seem to me that the bill is drawn with sufficient care or experience to be certain it will meet the existing defects.

No. 7. Heaven knows; I am apprehensive.

I hope you will be able to attend the conference, and I know that Massachusetts bankers will feel safe in your hands.

I realize that what I have said above is very inadequate, but I am sure that the conference will lead to some conclusions as to which are the best points to urge and which to avoid discussing with the administration.

Yours, very truly,

H. M. BATCHELDER, *President.*

MERCANTILE NATIONAL BANK,
Salem, Mass., August 12, 1913.

Mr. CHARLES P. BLINN, Jr.,
President Massachusetts Bankers' Association, Boston, Mass.

MY DEAR MR. BLINN: Replying to your circular letter of August 8, requesting an expression of opinion on the provisions of the currency bill, I will say that I have examined the bill somewhat carefully and have noted the published amendments as they have appeared.

In regard to the first point, it seems to me that the radical defect in the bill is that they propose to have a governing board made up of politicians instead of bankers, and the affairs of the banks are to be administered by those who have no responsibility to the stockholders.

It also seems that the reserves are too much scattered, but possibly that would be offset by the absolute control of the governing board.

In the rediscount plan I see there is an amendment to the extent of increasing the length of time of maturing paper to 60 days. It would seem as if 90 would be fairer to the banks, and with this rediscounting privilege perhaps the required reserve might be reduced to 12 per cent, to be divided between the Federal reserve bank, cash in vault, and other reserve agents, especially if the redemption fund is not to be counted as a part of the reserve.

In regard to the note issues, the plan to retire them gradually would perhaps create the least disturbance. The Government should provide some way to pay the 2 per cent bonds at par either at once or during a term of years, and it would seem as if some provision should be made whereby national banks which prefer to surrender their charters could turn in the bonds against outstanding circulation.

It seems to me that the bill as drawn offers nothing of advantage to country banks at least, and it would be a matter of serious consideration with many of them whether to reorganize under a State charter rather than to subscribe so large an amount to the capital stock of a Federal reserve bank which will be of little or no benefit to them.

Very truly, yours,

LELAND H. COLE, *Cashier.*

THE FIRST NATIONAL BANK,
Greenfield, Mass., August 20, 1913.

Mr. CHAS. P. BLINN, Jr.,
President Massachusetts Bankers' Association, Boston, Mass.

DEAR MR. BLINN: Your circular letter and your subsequent personal request for my opinion on the currency bill came during my absence. I do not think you have suffered by not having my views, but I should regret very much to have you feel that I neglected to do anything that you might request in such a matter.

You are on your way to Chicago ere this, I have no doubt, and will not see this until you return.

The things that I do not like about the currency bill are the political control, which, I am afraid, will eventually put the banking business of the country into the same sort of a strait-jacket that the railroads are now in, and the reduction in profits which I believe will result from the general working of the scheme, and which the country banks at least will find it difficult to make up from any advantages that the bill may give them.

In a general way the bill seems to me to follow the Aldrich bill, but the spirit of the thing is entirely different, endeavoring as it does to take the control of the banking business from the bankers and putting it into the hands of the politicians.

Some of the amendments that have been made, as reported by the newspapers, have improved it from the original form.

I hope your meeting in Chicago will result in some suggestions that may be accepted by Congress to the improvement of the bill.

Regretting that I am derelict in this matter, I am,

Sincerely, yours,

J. W. STEVENS.

No. 1260.

THE PITTSFIELD NATIONAL BANK,
OF PITTSFIELD, MASS.,
Pittsfield, Mass., August 19, 1913.

CHARLES P. BLINN, Jr., Esq.,
Union National Bank, Boston, Mass.

DEAR MR. BLINN: I beg to acknowledge receipt of your favor of the 16th, and in reply would say that I rather hesitate to express any opinion on the currency bill. There are many requirements for the country banks which can not possibly meet with their approval.

It seems to me that the bill as it now stands would inflict many hardships to the country banks and that there are many phases that would bring pretty serious results.

Yours, very truly,

GEO. H. TUCKER.

THE SPRINGFIELD NATIONAL BANK,
SPRINGFIELD, MASS., *August 18, 1913.*

Mr. CHARLES P. BLINN, Jr.,
Vice President, National Union Bank, Boston, Mass.

MY DEAR SIR: I do not know what became of your earlier communication, but Mr. Alden has handed to me your favor of August 16.

It is impossible to discuss in all its windings the contemplated currency bill without going into a very careful analysis of the entire proposition, which from beginning to end, with few exceptions, seems to have been born of ignorance and suspicion.

The assurance with which men unfamiliar with banking conditions or who have made a mess of financial legislation in their own State undertake to tell us what will answer our national requirements would be absurd if it were not so serious.

That there is need of such legislation no one will deny. It is the most important thing before the country, not excepting the tariff bill, but to unduly hasten its enactment into law would be, it seems to me, little short of a calamity. We do not at all approve a good many of its features, notably that which is to compel us to invest 20 per cent of our capital in an organization controlled by political appointees with extraordinary powers and without banking experience, and upon which we can never receive exceeding 5 per cent per annum and may not receive so much.

I could go on indefinitely, but have said enough in a general way perhaps to show you that in this matter we are opposed to the present bill and in accord with what we believe to be the most intelligent banking sentiment in this country.

Yours, very truly,

H. H. BOWMAN, *President.*

MERCHANTS NATIONAL BANK,
Worcester, Mass., August 11, 1913.

Mr. CHARLES F. BLINN, Jr.,
Vice President, National Union Bank, Boston, Mass.

DEAR SIR: Referring to your circular letter of August 8, and answering in the same order, I would say that I believe:

First. The organization and management should be maintained so that the advisory board of bankers should have the initiative, and that the political board of managers should only regulate and reject or confirm the action of the advisory board.

Second. Bills of longer maturity than 45 days should be discounted. I should think they ought to be as long as 90 days.

Third. Either the Federal reserve bank should pay some rate of interest on the reserve deposit with them by the national banks or they should be allowed to keep part of the reserve with their correspondents and reserve cities where they could get interest.

Fourth. I think the circulating notes should be issued by the central organization, not by the branches, and that the gold reserve should be held back on these notes, but not for a fixed amount, so that in times of stringency more notes could be issued with less reserve than when there is a plethora of money.

Fifth. The United States bonds held in circulation by the national banks and also held to secure United States deposits should be refunded in such a manner that the banks should receive at least par for their bonds, and should not have to wait 20 years in order to have them all refunded.

Sixth. I think the bill, with proper changes, will meet many of the existing defects in our present system and facilitate business, although it is not the ideal bill. It would be much better if there were one central bank with branches.

Seventh. If the bill is enacted in its present form, I am afraid many of us would prefer to take trust company charters rather than continue under the national bank system.

Very truly, yours,

F. A. DRURY.

THE WORCESTER NATIONAL BANK,
Worcester, August 18, 1913.

CHARLES P. BLINN, Jr., Esq.,
Care National Union Bank, Boston, Mass.

DEAR MR. BLINN: In reply to your letter of the 16th instant, I assume that you do not want a criticism of the minor details of the Owens-Glass bill. Like everyone else, I think the fundamental objection is in the matter of the control of the Federal reserve board by political appointees of the President. I think that bankers should be a majority on the board. I assume that this is impossible in the present frame of mind of the administration, but I should try to have the bill so modified that the presidential appointees would have a majority of but one. I think that the banks' representation should be based on some combination of the regional reserve banks into groups, so that one director would represent interests of geographical areas with similar needs and somewhat similar business activities. I think that the proposed advisory board is much better than the original proposition, but I should push very hard to have the banks have a real and active voice.

In the second place, I think that in every point where it can be done, the managing powers of the Federal reserve board should be curtailed. That this should be a critical and administrative board to supervise the carrying out of the law, rather than one empowered to transact the business of the banks.

Third, that the currency issued under the bill should be issued by the banks and should be entirely divorced from any governmental guaranty. The Government should not be a party to these obligations at all, and there should appear nothing on their face to lead people to believe that they are obligations of the Federal Government. I am not clear in my mind as to how the subdivisions of the reserves, as now planned for, will work out, but you people in the reserve cities doubtless know very much better than we country banks the pros and cons of that side of the bill.

I almost wish that I was to be in Chicago on Friday. I think it ought to be a very interesting meeting.

With kind regards, I am, yours, very truly,

ALFRED L. AIKEN.

Senator SHAFROTH. How many did you send out?

Mr. BLINN. I sent out about 300. I received 14 or 16 replies. I find that the bankers hesitate to express an opinion on matters of this kind.

The CHAIRMAN. You say you sent out 300 and only received 14 or 16 replies?

Mr. BLINN. Yes, sir.

Senator POMERENE. You say bankers hesitate to express their opinion?

Mr. BLINN. Yes, sir; for two reasons. With a great many country bankers, I am frank to say, I do not think they fully understand the workings of the bill as well as they should.

Senator POMERENE. What portion of them?

Mr. BLINN. It is impossible for me to say. Any estimate I might make would be conjecture.

Senator POMERENE. You make that as a general observation?

Mr. BLINN. I make that as a general observation; yes. For that reason they are reluctant to express their opinions, first, from lack of ability; and, second, from lack of their ability to express themselves properly if they do have concrete ideas on the subject.

Senator POMERENE. That is one reason. What other reasons are there?

Mr. BLINN. Those are the only ones, I should say. Those are the only ones that occur to me.

I have made a close analysis of the bill from the standpoint of figures, and I should like to show the committee how, in my opinion, the plan will work out. I have taken it from a practical standpoint, as a banker will look at it who is obliged to make payments to the Federal bank. I start with the country banks, whose reserve requirements are cash 5 per cent, deposit with the Federal bank 5 per cent, and 2 per cent additional, which will be divided either cash or deposits in Federal banks. In actual practice I am assuming that 2 per cent will be evenly divided, 1 per cent in cash and 1 per cent in the Federal banks. The comptroller's report shows net deposits, August 9, 1913, of $3,595,700,000.

Senator NELSON. That is with country banks?

Mr. BLINN. Yes; deposits with country banks. Under the proposed plan, they will give up United States deposits, which, at the time of making the report, August 9, amounted to $25,100,000. After taking this out the deposits would amount to $3,570,600, which will remain with them.

Their reserve requirement with the Federal bank is 6 per cent, which is $214,236,000. Their capital stock subscriptions to the Federal banks on a capital of $611,628,000, at 10 per cent, will be $61,162,000, and the United States deposits which they must pay over are $25,100,000, making a total payment to regional banks, combined, of $300,498,000.

I estimate that payment to be made by country banks as follows—these figures are all the result of the comptroller's report of August 9: Present cash holdings, $250,702,000; their new cash requirements, $214,236,000; the difference between the two figures is $36,466,000,which is the excess which the country banks can deposit with the regional banks. That leaves a deficit of $264,032,000, and I figure the country banks in making payments would draw drafts on their correspondents to make up that deposit.

Their present balances on deposit with agents is $501,297,000. Withdrawn for Federal banks, $264,032,000, which would leave an excess balance on deposit with agents of $237,265,000 still to their credit with reserve banks. That $237,000,000 is 47 per cent of the amount which they now carry there.

(The above statement, in tabulated form, is as follows:)

COUNTRY BANKS.

Reserve requirements:	Per cent.
Cash	5
Federal banks	5
Cash or Federal banks	2
Total	12
Net deposits (Aug. 9, 1913)	$3,595,700,000
Less United States deposits	25,100,000
Net	3,570,600,000

		Per cent.
Reserve of 6 per cent with Federal banks		$214,236,000
Subscription to stock of Federal banks (10 per cent on capital of $611,628,000)		61,162,000
United States deposits		25,100,000
Total payment to Federal banks		300,498,000
Payment estimated to be made as follows:		
Cash (see below)		36,466,000
Drafts on:		
Central reserve agents	$132,016,000	
Reserve agents	132,016,000	
		264,032,000
Total as above		300,498,000

Present cash holdings	$250,702,000
New reserve requirements (6 per cent)	214,236,000
Excess available for Federal banks	36,466,000

Present balances with agents	$501,297,000
Withdrawn for Federal banks	264,032,000
Excess balances with agents available for business needs (47 per cent of present balances)	237,265,000

Reserve summary.

	Present law.	Under proposed bill.
Requirements:		
Cash	$214,236,000	$214,236,000
Agents	321,354,000	
Federal banks		214,236,000
Excess reserve:		
Cash	36,466,000	
Agents	179,943,000	237,265,000
Federal banks		
Total	751,999,000	665,737,000

Next, turning to the reserve banks, their net deposits on August 9, 1913, were $1,881,600,000. They will pay to the regional banks $21,800,000 and draw on country banks drafts to the extent of $132,016,000. That is one half of the $264,032,000 previously referred to, so that their deposits will be reduced $153,816,000, leaving net deposits, on which they must carry a reserve of $1,727,784,000. Now their reserve requirements are, cash 9 per cent, 5 per cent with the Federal banks, and 4 per cent which can be either in cash or Federal banks. I have estimated that 2 per cent will be in cash and 2 per cent deposits with Federal banks. They will carry a reserve of 8 per cent with the regional banks, or $138,222,000. Their capital stock subscription at 10 per cent on a capital of $262,067,000, will be $26,206,000, and they will have to pay over United States deposits of $21,800,000, making a total payment on their own account of $186,229,000. To that must also be added in country bank drafts of $132,016,000, making a total of $318,245,000 to be provided for by them.

Now I estimate that payment to be made as follows: Present cash holdings, $240,947,000; new reserve cash requirement, of 10 per cent, $172,778,000, or $68,168,000, which will be free, and that excess can be paid into the regional banks. There still remains to be paid in $250,076,000, and I estimate the reserve banks will draw

upon the central reserve agents for that amount, making a withdrawal of $250,076,000 out of their present balances with reserve agents of $267,916,000. So the burden of the cash payments will all fall upon the reserve cities. After the reserve banks have paid the amounts required to the regional banks, they will have left a credit with central reserve agents of $17,839,000, or 6½ per cent of their present balances. That, in my opinion, is not adequate for them to conduct their business, and in actual practice that would probably be increased by methods I will later describe.

(The above statement, in tabulated form, is as follows:)

RESERVE BANKS.

Reserve requirements:		Per cent.
Cash		9
Federal banks		5
Cash or Federal banks		4
Total		18
Net deposits (Aug. 9, 1913)		$1.881,600,000
Less United States deposits	$21,800,000	
Less country bank withdrawals	132,016,000	
		153,816,000
Net		1.727,784,000
Reserve of 8 per cent with Federal banks		138,222,700
Subscription to stock of Federal banks (10 per cent on capital of $262,067,000)		26,206.700
United States deposits		21,800.000
Payment on own account		186,229.400
Add payment account country banks		132,016,000
Total payment to Federal banks		318,245.400
Payment estimated to be made as follows:		
Cash (see below)		68.168.600
Drafts on central reserve agents		250,076.800
Total as above		318.245,400

Present cash holdings	$240,947,000	Present balances with agents	$267,916.000
New reserve requirements (10 per cent)	172,778,400	Withdrawals from central reserve agents	250.076.800
Excess available for Federal banks	68,168.600	Excess balances with agents available for business needs (6½ per cent present balances).	17.839.200

Reserve summary.

	Present law.	Under proposed bill.
Requirements:		
Cash	$232,475,000	$172,778,400
Agents	232,475,000	
Federal banks		138,222,700
Excess reserve:		
Cash	8,472,000	
Agents	35,441,000	17,839,200
Federal banks		
Total	508,863,000	328,840,300

Now turning to the central reserve banks, they have a reserve requirement of 9 per cent cash, 5 per cent with Federal banks, and 4 per cent cash or Federal banks, which I have again divided 2 per cent cash and 2 per cent Federal banks. The net deposits August 9, 1913, were $1,619,300,000. After making the payments which they are to make of United States deposits $4,458,000, withdrawals by country banks of $132,000,000, and withdrawals by reserve banks of $250,000,000, their net deposits will be reduced to $1,232,000,000. Against that they must carry a reserve of 8 per cent in Federal banks, making $98,619,000, capital stock subscription to said Federal banks at 10 per cent on a capital of $182,650,000, or $18,265,000, and United States deposits which they must pay over of $4,458,000. That makes a total payment on their own account of $121,342,000. In addition to that there must be added payments on account of country bank drafts, $132,016,000, and payments on account of reserve bank drafts, $250,076,000, making the total reserve required for them in the regional bank of $503,435,000.

Now we will see how they will make it: Present cash holdings $407,519,000; new reserve requirements, 10 per cent, $123,275,000, leaving an excess of $284,244,000, which can be paid to regional banks. There is a deficit in the amount required of $219,191,000, to be provided by loans by the central reserve banks. They must either contract their loans to the extent of $219,000,000, or must make rediscounts with the regional banks of that amount.

(The figures for central reserve banks in tabulated form are as follows:)

CENTRAL RESERVE BANKS.

Reserve requirements:		Per cent.
Cash		9
Federal banks		5
Cash or Federal banks		4
Total		18
Net deposits (Aug. 9, 1913)		$1,619,300,000
Less:		
United States deposits	$4,458,000	
Withdrawals by—		
Country banks	132,016,000	
Reserve banks	250,076,800	
		386,550,800
Net		1,232,749,200
Reserve of 8 per cent with Federal banks		98,619,900
Subscription to stock of Federal banks (10 per cent on capital of $182,650,000)		18,265,000
United States deposits		4,458,000
Payment on own account		121,342,900
Add payment on account country banks		132,016,000
Add payment on account reserve banks		250,076,800
Total payment		503,435,700
Payment estimated to be made as follows:		
Present cash holdings	$407,519,000	
New reserve requirements (10 per cent)	123,275,000	
Excess available for Federal banks		284,244,000
Deficit to be provided by loan, contraction, or rediscounts		219,191,700
Total payment as above		503,435,700

We will assume they will make rediscounts. So the recapitulation of all these figures will show the following: That the regional banks will have a capital of $105,633,000. That the various classes of banks will pay into them as deposits on reserve $451,000,000; United States deposits now in banks, exclusive of what is kept in the Treasury, amounting to $51,000,000, making the total assets received by regional banks $608,000,000.

Senator NELSON. That is of the 12?

Mr. BLINN. I am combining the 12 banks as one. They will acquire $388,000,000 in all forms of money, and will be obliged to rediscount $219,000,000. They will have a reserve of 83.81 per cent.

Senator WEEKS. You do not attempt to say in what form that reserve will be, whether gold or silver or greenbacks or something else.

Mr. BLINN. It will be all forms of money.

Senator NELSON. Eighty-three and one-third per cent?

Mr. BLINN. No; 83.81 per cent.

Senator HITCHCOCK. What do you mean when you say they will be required to rediscount $219,000,000?

Mr. BLINN. Because the central reserve banks will be required to put up $121,000,000 on their own account. The drafts that will be drawn out by country bank correspondents and reserve bank correspondents, the cash they must put in on account of their own requirements under the new plan, will be $382,000,000, which will make the total payment $503,000,000. The cash excess available for Federal bank reserve requirements under the new plan will be $284,000,000, so that means they will be required to pay—they will be short—that $219,000,000. Therefore, the banks will be required, in theory, to rediscount $219,000,000. In actual practice I do not believe the central reserve banks will rediscount. I think the shifting of loans to that extent will take place.

(The recapitulation of figures, in tabulated form, is as follows:)

Recapitulation.

PAYMENTS TO FEDERAL BANKS.

	Capital.	Reserve.	United States deposits.	Total.
Country banks	$61,162,000	$214,236,000	$25,100,000	$300,498,000
Reserve banks	26,206,700	138,222,700	21,800,000	186,229,400
Central reserve banks	18,265,000	98,619,900	4,458,000	121,342,900
Total	105,633,700	451,078,600	51,358,000	608,070,300

HOW PAID.

	Cash.	Withdrawn from agents.	Loan contraction or rediscounts.
Country banks	$36,466,000	$264,032,000	....
Reserve banks	68,168,600	250,076,800	....
Central reserve banks	284,244,000	....	$219,191,700
Total	388,878,600	514,108,800	219,191,700

Statement of Federal reserve banks.

Cash	$388,878,600	Capital	$105,633,700
Loan	219,191,700	Deposits:	
		Bank	451,078,600
		United States (exclusive of cash now in Treasury)	51,358,000
Total	608,070,300	Total	608,070,300

Cash (not gold) reserve, 83.81 per cent.

Senator HITCHCOCK. Will you explain what you mean by "shifting loans"?

Mr. BLINN. Transfer of loans. I will explain that. We have grown up under a system whereby it is looked upon as an element of weakness for a bank, especially in a central reserve or reserve city, to rediscount. Banks in reserve centers will avoid rediscounting, so that the banks in my opinion in the central reserve cities, will not rediscount to make the payment required of them under this plan, but they will contract their loans. They are loaning to day on the stock exchange collateral. They have provisional commercial paper of concerns all over the country which they have purchased from brokers in the outside markets. As that matures, they will ask to have it paid. They will call their stock exchange loans and will acquire the $219,000,000 by contracting their loans.

Senator HITCHCOCK. What you speak of as stock exchange loans does not apply to the western banks. The banks of the reserve cities of the West have no money out on stock exchange loans. When they contract their loans, they will have to contract their loans to resident customers.

Mr. BLINN. In referring to central reserve cities, I am referring to New York, Chicago, St. Louis, Kansas City, Omaha, and other reserve cities.

Senator POMERENE. Let me ask you right there: You say pretty positively that if this law goes into effect they will contract their loans.

Mr. BLINN. I do not say so, sir.

Senator POMERENE. Was not that your statement?

Mr. BLINN. No, sir. I say they will be obliged to provide $219,000,000 in some way.

Senator POMERENE. Your statement was there was an objection to rediscounting and therefore they would contract their loans.

Mr. BLINN. I say we have grown up under a system whereby they look upon rediscounting as an element of weakness, and that in my opinion the banks in the central reserve cities will not rediscount.

Senator POMERENE. You assume they will do so. Is there objection to it?

Mr. BLINN. It will take years to overcome the objection.

Senator POMERENE. That is, for the bankers to overcome the objection?

Mr. BLINN. Yes, sir. It is an objection which has existed, and we must live it down.

Senator POMERENE. You speak of contracting of the loans. Is that feeling general among the bankers?

Mr. BLINN. I am simply presenting figures, sir, showing how the plan will operate.

Senator POMERENE. That does not answer the question. My question is, is that feeling general among the bankers?

Mr. BLINN. There is some feeling among the bankers; yes.

Senator POMERENE. Have they that object in view?

Mr. BLINN. Of contracting loans?

Senator POMERENE. Yes; in the event that this bill passes?

Mr. BLINN. That I can not say.

Senator HITCHCOCK. I can answer the Senator, and say they are already contracting loans in anticipation of it.

Senator NELSON. As I understand him, Senator Pomerene, he says they have got to raise this money in one of two ways—either to rediscount or else contract their loans—and then goes on to state there is a prejudice existing, or has existed, against rediscounting. And he says on that account it is probable they will resort in the contraction of loans. Is not that it?

Mr. BLINN. Yes, sir; the essence of it.

Senator POMERENE. The impression that was produced on my mind was even if this system is changed this prejudice would continue.

Mr. BLINN. I do not wish to leave that impression with the committee, sir. I say the prejudice will be overcome, but it can not be done in 30 days or in 60 days, or it can not be done in a year. The condition is that the central reserve cities have a large amount of free assets not loaned to their customers, but invested in more profitable fields where they will earn the bank an income. Now, the commercial paper that is bought in the outside market, as a business proposition for the bank, there is no reason why the banks should continue to hold that any longer than they wish to. They have other needs for the money. These regional banks call upon them to pay in $219,000,000, and therefore they ask the man whose note they hold to pay that note, so as to enable them to pay this $219,000,000 which they are obliged to do under this plan. The man who makes the note must provide to pay it in one of two ways—either by borrowing elsewhere, from his local bank, or contracting his business, liquidating his merchandise. He can probably borrow that from the local bank if he is not overextended to-day. The local bank will extend him the facilities, and the notes of the local bank will be rediscounted; but the banks of the central reserve cities who have bought his note as a pure investment will ask that it be paid that they may provide for paying the $219,000,000 that is necessary to be paid into these regional banks.

Senator HOLLIS. Mr. Blinn, do you believe eventually, under a good law, it is desirable to become accustomed to the rediscount feature?

Mr. BLINN. It is the scientific plan; yes.

Senator HOLLIS. And you would approve of that if it is decided upon?

Mr. BLINN. Yes.

Senator SHAFROTH. What remedy do you suggest for this condition that may occur in the transition?

Mr. BLINN. Well, of course I take the plan as it will stand at the end of the 38 months. I think in the period of 38 months the whole thing will take place. Slowly the banks will gradually come to use the new order of things. They will at the end of 38 months have

worked out this thing without any difficulty. I do not look for any difficulty.

Senator SHAFROTH. Have you any suggestions to avoid this contracting you think might possibly occur?

Mr. BLINN. It can not be done. The fact is the central reserve banks have certain obligations thrust upon them by this bill. They are compelled to meet those obligations. As I said before, they will have to meet the obligations in one of two ways, and it is for the directors of those banks to determine which of the two ways they will meet the payment.

Senator SHAFROTH. There will be no objection, except as a sentimental objection, to rediscounting paper in the regional reserve banks?

Mr. BLINN. There would not, but a bank does not care to rediscount any notes. A bank rediscounts only when customers are calling for funds, when the demands upon it are more than its own resources will permit. In the case of the central reserve banks that condition does not obtain. The central reserve banks being custodians of the reserves of the country have been compelled to carry in addition to the 25 per cent required by law a reserve of 35 or 30 per cent more. They carry, the central reserve banks, loans which are quickly convertible, and that is why they have grown into making stock exchange loans. There is a preconceived idea that the New York banks loan on stock exchange collateral because the managements of the banks are interested in the stock exchange. They loan on stock exchange collateral because that offers them the best form of reserve.

Senator NELSON. Is not that a most dangerous kind of loan in time of a panic?

Mr. BLINN. It is.

Senator NELSON. It is no more liquid than any other loans?

Mr. BLINN. The stock exchange loan is liquid as long as the borrower can borrow elsewhere; but when a panic comes and he can not borrow elsewhere, the machinery stops.

Senator NELSON. And really the only liquid loans are bill of exchange drawn upon the commercial commodities—wheat, flour, or something like that?

Mr. BLINN. I am not ready to admit that, sir. In the panic of 1907 not only the stock exchange loans were not paid, but commercial paper all over the country was not paid.

Senator NELSON. It was not paid in the interior because our money was locked up in New York.

Mr. BLINN. I would like to combat that statement, Senator, by showing——

Senator NELSON. New York swallowed, in that panic, over $40,000,000 of Government money, and imported over $90,000,000 of gold for bills of lading for merchandise and wheat.

Mr. BLINN. Where did it go?

Senator NELSON. It was swallowed up in the stock exchange business of New York.

Mr. BLINN. I beg to differ with you, and would like to prove by statistics of the Comptroller of the Treasury just what the condition

was. In the comptroller's call of December 3, 1907, the legal reserve of the national banks throughout the country——

Senator NELSON. On what day?

Mr. BLINN. December 3, 1907. That was the midpanic call, the only figures available for this purpose. That shows that the legal reserve of the country was 21.31 per cent. On August 9 it was 20.72, or 0.4 of 1 per cent lower than it was in the panic of 1907. You say, Why don't the same difference prevail? It don't prevail for this reason, that on December 3——

Senator NELSON. What good do those figures of reserve do when the banks in New York had shut up shop?

Mr. BLINN. I am trying to show you where the money was.

Senator NELSON. Where was it?

Mr. BLINN. The reserve in the New York banks December 3, 1907, was 21.89 per cent, or more than 3 per cent below their requirements. The reserve of Chicago was 24.21. On August 9 it was 22.94. It was higher in the panic than it is to-day, or, I should say, on August 9. The St. Louis reserve was down to 20.38 per cent.

Now, let me give you the figures of some of the other cities. The banks at Minneapolis had a reserve of 26.24 per cent. To-day, August 9, they have a reserve of 25.05. They were higher than they are to-day. St. Paul had 27.94.

Senator HITCHCOCK. They had 26 per cent in the Minneapolis banks, including what they had on deposit in New York.

Mr. BLINN. They did; yes.

Senator HITCHCOCK. And that of course was locked up.

Mr. BLINN. I can not tell how much cash they had in New York. I can not tell you that. The legal reserve of Minneapolis is 26.24. Their actual reserve was 28.92, indicating their cash was 14.68 per cent and that their New York reserve was 14.24 per cent.

The banks of St. Paul had a legal reserve of 27.94 and an actual reserve of 31.51, indicating——

Senator NELSON. You know all those figures are deceptive for this reason: All our western banks keep a lot of their money in New York and Chicago for exchange purposes—always more than their legal requirements.

Mr. BLINN. I am trying to show you where the cash was.

Senator NELSON. It was not only their reserves that were tied up, but all other money.

Senator HITCHCOCK. It is very strange. The Ohio bankers had the same view Senator Nelson had. The fact is they could not get the money on deposit in New York.

Senator NELSON. Give us how much all the New York banks carry of bankers' deposits outside of reserve, not reserve only.

Mr. BLINN. These are the only figures obtainable, in this report.

Senator WEEKS. Mr. Blinn will quite likely be able to correct me if these figures are not substantially correct. When the panic broke in New York, at the end of October, the total deposits in the New York national banks were $1,200,000,000. It was necessary for them to have $300,000,000 of reserve on hand.

Mr. BLINN. Yes.

Senator WEEKS. And they had it?

Mr. BLINN. Yes.

Senator WEEKS. The figures show they had their legal reserve at that time. Now, of that $1,200,000,000 deposits about $550,000,000 were bank deposits.

Mr. BLINN. Yes.

Senator NELSON. That is it.

Senator WEEKS. Having $550,000,000 of bank deposits, they had to have $3,000,000 reserve on hand, which was the legal requirement. Now, it was not possible if all the banks in the country called for their money, for the New York banks to supply it?

Mr. BLINN. That is correct.

Senator WEEKS. Of course, it could not supply more than 55 per cent if they paid it all out.

Mr. BLINN. That is correct.

Senator WEEKS. The New York banks had no way to recoup themselves except to import gold or get gold from the Government. That was the situation, and that was the reason the New York banks could not possibly respond to the demands of the banks all over the country.

Mr. BLINN. That is correct.

Senator WEEKS. It was a physical impossibility.

Senator NELSON. And that plan indicates one thing, that the most liquid and best paper in the case of a panic is bills of exchange drawn upon commodities. During the panic the banks of New York imported over $90,000,000 of gold on bills of lading for merchandise, wheat and flour; produced by the farmers. That is what brought the gold in. It was not brought in on finance bills, but it was brought in on bills of lading for goods.

Senator HITCHCOCK. Can you tell us how much of that $550,000,000 due the banks of the country the New York banks paid out during the 90 days following October 26?

Mr. BLINN. I do not believe such figures could be obtained except at the counters of the particular banks. I am trying to show by the presentation of the figures the requirements that existed, and that the banks were clamoring for cash and criticizing the reserve centers because they would not furnish the cash, and that they themselves, at that time, had more cash than they have now and much more cash than they have now.

Senator HITCHCOCK. I think you are correct in that from my knowledge of the western banks. There is a good deal of truth in that statement.

Mr. BLINN. The banks of Omaha had a legal reserve of 33.60 and an actual reserve of 34.33. That means that Omaha's cash reserve was 21.10 against a 12.5 per cent requirement, and their reserve in New York was less than 1 per cent above the requirement. They were locking up cash they did not need.

The banks of Denver had a legal reserve of 30.90, with an actual reserve of 31.38.

San Francisco had a reserve of 34.16 in both places. There it would be impossible for me to tell you, by calculation, how much was cash and how much on deposit. San Francisco to-day has 26.14 as against 34.16 during the panic.

The CHAIRMAN. You had better put that table in your remarks and let it be considered as part of your statement.

Senator SHAFROTH. That is in the comptroller's report?

Mr. BLINN. These are abstracts of statistics that I keep, all from the comptroller's reports.

Senator SHAFROTH. They can not be found in any one table in the comptroller's reports?

Mr. BLINN. No, sir. As each comptroller's report comes out, I set down these figures so I can run back over a series of years.

Senator NELSON. From the annual reports?

Mr. BLINN. The statements that come out five times a year.

Senator NELSON. Now, can you tell us what the reserves are behind what we call the country banks?

Mr. BLINN. At this time?

Senator SHAFROTH. During the panic.

Mr. BLINN. During the panic; yes, sir.

Senator NELSON. Country banks as distinguished from banks in reserve cities and central reserve cities.

Mr. BLINN. The figures that I gave you before were for the reserve cities. The figures for the country banks give, December 3, 1907, 19.17 per cent legal reserve.

Senator NELSON. That is away above the requirement?

Mr. BLINN. Yes. The actual reserve which includes the New York cases, which can not be counted legal reserve, was 24.97, where to-day it is 21.57, proving conclusively my opinion that the cash was in the country in 1907. It was not in New York. The New York banks paid out as fast as they could.

Senator SHAFROTH. Mr. Blinn, you said awhile ago that banks never rediscounted paper unless there was a demand among their customers for more money.

Mr. BLINN. Yes, sir.

Senator SHAFROTH. And is that likely to prove a check upon rediscounting with the regional reserve banks?

Mr. BLINN. No, sir; as I said before, under this bill we must get used to the new order of things.

Senator SHAFROTH. It will until the new order comes about. That is the practical effect.

Mr. BLINN. Yes, sir. Bankers must become educated to the new plan.

Senator SHAFROTH. Do you believe such an amount of currency can or will be kept out under this system as would be sufficient to take the place of the national bank notes of $740,000,000?

Mr. BLINN. Not immediately; it will in the end.

Senator SHAFROTH. Will not the matter of depositing and rediscounting 90-day, 60-day, and 30-day paper have a tendency to retard the issuance of a currency sufficient to take the place of the national bank notes?

Mr. BLINN. I shall have to ask you to repeat the question.

(At the request of Senator Shafroth, the stenographer read the last two preceding questions and answers.)

Mr. BLINN. My answer to that question is this, that there will be just as many of the Treasury notes issued as the demands of trade call for, and that they will be issued if currency is needed for circulating purposes. Those notes will be issued in one of two ways: Either against the rediscount of commercial paper, or at the request of a bank having a deposit with the regional bank whereby the deposit liability is converted into a note liability. And, to repeat, the

volume of the Treasury notes will depend upon the demands of trade, which is the scientific method.

Senator SHAFROTH. Your reference to reserves held by the central reserve city banks and the reserve city banks and the country banks indicates that the panic was really due to the fact that they could not draw on those reserves, does it not? If each bank had been permitted to use its reserves in paying out moneys there would have been a sufficient volume to prevent the panic.

Mr. BLINN. If the banks over the entire country had done that, yes.

Senator SHAFROTH. Now, what do you think about a provision that would permit any national bank anywhere to convert its cash reserve into a note reserve or a collateral reserve in times of panic, with the consent of, say, these regional reserve banks?

Mr. BLINN. I should not favor that. I believe the reserves should be in gold.

Senator SHAFROTH. The very object of reserves, as they are now used, is not to help a bank to pay out in times of panic but is really a kind of asset in case the bank closes its doors and there has to be a receiver appointed. That is about the only use of a reserve, is it not?

Mr. BLINN. A currency bill will change conditions. Under existing conditions, in times of crisis, bank managers looking at it only from the selfish point of view believe that it is their duty to lock up all the cash they can in their own vaults, thereby strengthening their condition regardless of their neighbors.

Senator SHAFROTH. But that only makes the panic worse.

Mr. BLINN. It does. Now, give us your central bank of rediscount, with the volume of Treasury notes dependent upon two things; first, the amount needed in the channels of trade, and, secondly, the reserve which is carried against those notes. Bank managers will see that they can get their cash and there will not be that wild scramble that now exists under our present law. It will obviate the objection I believe you have in your mind.

Senator SHAFROTH. Yes. Now, take the panic of 1907. If the banks over the country had been permitted, under regulations of some kind that would make it safe to use their reserves instead of locking them up, and to substitute for the same first-class, prime commercial paper, the banks would have been just as solvent in either case, and yet the strain for currency would have been relieved.

Mr. BLINN. Let me ask you this question: Would you, as a depositor, wishing to draw out $500, be satisfied to receive the note of a local dealer of your town?

Senator SHAFROTH. No; it is not that. The object of this would be to let the cash be paid out, and either the Comptroller of the Currency or these regional reserve banks to hold this collateral security in the vaults of the bank, or to put it in a trusteeship so as to make the bank solvent, whether the reserve is in cash or in prime commercial paper.

Mr. BLINN. What happens if your cash is exhausted?

Senator SHAFROTH. Just the same as when the cash down to the reserve is exhausted. You can not use the reserve, as I understand it in the payment of drafts upon the bank. As one witness said:

As soon as I draw any money lower than that I go to the penitentiary, because I am paying out money of an insolvent institution and keeping the doors open after it is insolvent.

Mr. BLINN. I think conditions of panic really compel bankers to do things they would not do at other times.

Senator SHAFROTH. That is very true. But, if there were some system devised which would permit these reserves, or the cash for these reserves, to be liquidated so as to be paid out instead of being held in the vaults of the bank, it seems to me it would relieve the situation often in panicky times.

Mr. BLINN. Do you realize that in the comptroller's reports beginning September 1, 1909, down to date, the banks in Chicago have been above their requirements only twice?

Senator SHAFROTH. That may be.

Mr. BLINN. The banks of Albany——

Senator SHAFROTH. That, to my mind, simply shows the necessity of going into these reserves and paying them out and having a substitute for them in the case of prime commercial paper.

Mr. BLINN. Why a substitute? They have commercial paper right in their vaults.

Senator SHAFROTH. The object of the reserve is not to have the money there to pay out. It is a kind of security in the case of the failure of the bank?

Mr. BLINN. No, sir.

Senator SHAFROTH. Because, if the reserve is to be kept and not to be paid out the very locking up of that much money is what precipitates the panic and makes it worse.

Mr. BLINN. Let us take a bank statement—a bank with $10,000,000 total surplus and with cash holdings, we will say of $1,000,000, and a loan of $9,000,000. If that cash goes down to $700,000 the loan goes up to $9,300,000. In other words, the amount of notes and the amount of cash, other items being eliminated, always equal the total assets, so the cash goes down and the loan goes up. Why should not the bank take and hold its notes, and what are you gaining by putting those notes with the Comptroller of the Currency?

Senator SHAFROTH. Only in order that if the bank closes its doors they will be that much of an asset.

Mr. BLINN. If the bank closes its doors to-day, it liquidates and pays its creditors. You do not gain a thing.

Senator SHAFROTH. The object of this is to let the reserves in times of panic, or at the discretion of either the Comptroller of the Currency or one of these regional reserve banks use that reserve instead of holding it there, which, in my judgment, precipitates the panic and aggravates it.

Mr. BLINN. It does pay out to-day——

Senator SHAFROTH. Below the reserve?

Mr. BLINN. Below the reserve.

Senator SHAFROTH. Well, a limited amount, but nobody thinks of paying out on a 25 per cent reserve down to 5 per cent.

Mr. BLINN. Senator Shafroth, I went through the crisis of 1907. I was the treasurer of a $25,000,000 institution in Boston. Currency goes to a premium, and you would be surprised at the number of people that come around and try to get currency over the bank's counters without any object except to sell that currency at a premium. Some of the country banks went insane—perhaps I should not say insane; rather they lost their heads. They demanded more

cash than they needed, and the banks in the centers that had to handle this situation were the trustees of the Nation.

Senator SHAFROTH. But that was due to the fact that so much of this money was locked up in reserves. If it had been loose there would not have been that demand.

Mr. BLINN. Where was it locked up?

Senator SHAFROTH. In the reserves all over the United States.

Mr. BLINN. That is it.

Senator SHAFROTH. It was not any more in New York than in the other cities.

Mr. BLINN. I am trying to demonstrate it was not in New York but in the interior.

Senator SHAFROTH. Yes. But don't you think that the provisions of the European banks have an advantage over ours? They have no maximum reserve that is bound to be kept. They simply permit their banks to pay down to the last cent if it is necessary.

Mr. BLINN. But banking here is done under different conditions.

Senator SHAFROTH. That is true, but is not that an advantage? Does not our reserve and the holding of it in cash absolutely increase panics instead of decreasing them—the intensity of them? And would not the relieving of those banks by the substitution of some other currency alleviate conditions in times of panic instead of aggravating them?

Mr. BLINN. I am sorry I can not agree with you, Senator. I do not see anything to be gained by the substitution.

Senator SHAFROTH. The only thing is, you release millions and millions of coin.

Mr. BLINN. You release it just the same. Why substitute coin——

Senator SHAFROTH. Because you can not use it. The New York bank would have to close its doors in a minute if it were to go to a 5 per cent reserve. There would not be a single one of them that would keep open.

Mr. BLINN. It depends upon the character of their assets.

Senator SHAFROTH. No; I think not. In fact, it would be a cause for closing the doors.

Mr. BLINN. Yet the New York banks are criticized for permitting their reserves to run below 20 per cent.

Senator SHAFROTH. That may be. I think the reserve is intended simply as a security to the creditors of the bank, and that being the case, why, in times of panic, should it be held in cash instead of being held in good security notes, or discounts, or bonds, or anything of that kind——

Mr. BLINN. There is one point you and I differ on, and that is this: As I judge, you believe that the substitution of notes—prime commercial paper—for cash is the solution of the problem.

Senator SHAFROTH. One of the solutions. I agree with you that that is obviated very largely if you have a central place to go to and get paper discounted, but we do not know what is going to be the result of all this deliberation on the question, or whether that would be an ameliorating act.

Mr. BLINN. The paper you speak of is now in the hands of the banks for the benefit of the creditors if the banks close their doors. I do not see that you gain a thing by taking that paper and depositing

it with the Comptroller of the Currency for the benefit of the depositors.

Senator SHAFROTH. Can not we do this: Why can not you hold it in the vaults of the bank, under a requirement, or under the permission of somebody, that prime commercial paper may be substituted in times of panic for this gold?

Mr. BLINN. I do not think it is economically sound. I should not favor that plan, Senator.

Senator SHAFROTH. That is all.

The CHAIRMAN. Have you finished your statement?

Mr. BLINN. I have a few more things I should like to say. I should like to ask a question of the committee about one section of the bill. That is section 15. I am not clear upon it, and others that I have talked with are not clear upon it. The section reads as follows:

> That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills——

"Prime bankers' bills." Do I understand that the regional banks under that section are permitted to go into the market and buy commercial paper? By "prime bankers' bills" do you mean commercial paper?

Senator SHAFROTH. I think that was put in for the purpose of letting these Federal reserve banks control the rate of interest, and they could not control it except by going into the market.

Mr. BLINN. Do you intend to permit them to buy commercial paper?

Senator BRISTOW. To buy anything.

Senator SHAFROTH. To permit them to buy anything. The privilege is supposed to be exercised only at times when there is a change in the rate of discount. And in order to control the market, which is necessary to be done, in order to establish and make effective your rate of discount, this power was considered necessary.

Senator NELSON. My construction of those words "prime bankers' bills" is this: It is a foreign term injected into the bill, from the terms they use in England and other foreign countries. A good deal of their loans are in the form of bills of exchange instead of notes, are they not?

Mr. BLINN. They are: yes, sir.

Senator NELSON. And they are called "prime bankers' bills." Now, our bills of exchange are usually—except what we call finance bills—drawn upon bills of lading, against shipments of goods; and then we have domestic drafts drawn upon notes in banks here, which are somewhat similar to finance bills in one respect. But the term "prime bankers' bills" is applied to a species of paper they have in foreign countries that we have not here. When they go to borrow money there it is in the form of a bill of exchange, and they have a drawer, a drawee, an acceptor, and a payee all in one, and they are called "bankers' bills." I do not think it is appropriate to our system of doing business.

Senator BRISTOW. I was talking to a gentleman who claimed to know why that was put in the bill. He said it was for the purpose of permitting these regional reserve banks to deal directly with the public so as to regulate the conduct of their banks. A citizen that

had something to sell in the nature of a security, if the other banks would not take it, could go to the regional banks themselves.

Senator NELSON. What does the term "prime bankers' bill" mean? The next phrase "bills of exchange," that we all understand, but "prime bankers' bills," what kind of paper is that?

Senator BRISTOW. This gentleman understood it meant almost anything.

Mr. BLINN. The way it is expressed, sir, it would mean a bill of exchange. A bill of exchange is an instrument drawn by one party ordering a second party to pay. Prime commercial paper is the promise of the maker himself to pay. The two things are distinct. We do not have in this country the prime commercial paper they have in Europe. We have in this country so-called accommodation paper, or the promissory note of the maker with signers, where the maker is the man to pay the instrument.

Now, believing that you meant "prime commercial paper" instead of "prime bankers' bills," I should like to say a word on that subject. Under this plan you are providing a place of rediscount where the existing national banks which will create these regional banks can go and obtain a rediscount in times of need. You should not, in my opinion, permit these banks to enter the market in open competition with existing banks which have created these regional banks. Not only that, but if you do you are taking away the assets and the reserve supply of these regional banks for which they are being created. They are being created to furnish a big central reservoir for existing banks to draw upon in times of need. You provide a reserve of 33⅓ per cent, which, in my opinion, is not adequate, but the managers of the banks should not permit that reserve to come down to 33⅓ per cent or anywhere near it. They should run a reserve at all times of 50 or 60 per cent. The Bank of England to-day has 60 or 70 per cent. We have deposit banking here in this country that has not been perfected on the other side as it has been here.

Senator SHAFROTH. Now, if your objection to this should be effective, how could the central reserve bank make the raising and lowering of their rate of discount effective without that provision?

Mr. BLINN. In this way: It should work in conjunction with the open market. I do not think the regional bank should control the discount rate. I think the discount rate should fluctuate according to business needs. I do not think you want to leave it to the arbitrary control of the regional bank. I think it is better to leave it to the law of supply and demand. Now, if the existing banks require accommodation they will apply to the regional banks. If the national banks are applying for rediscounts to an unusual extent, so that the liabilities of the central bank are increasing without the gold supply correspondingly increasing and the reserve is going down, then is the time for the regional bank to increase its discount rate and thereby check rediscounts.

Senator SHAFROTH. Do you believe the Bank of England serves a good purpose in having the right to raise and lower the rate of discount?

Mr. BLINN. It does, and I want you to——

Senator SHAFROTH. Do you think the Bank of England could do so without having the privilege that is given in this provision? They have a right to go up into the market whenever they wish to, and in

that way they can raise the rate or throw money into the market, and therefore, by dealings with private parties——

Mr. BLINN. Yes, sir; but there again you have a different condition. In London you have a loan made up, not of loans made to London dealers, but of loans representing the indebtedness of all nations. London is the bank of the world, and the obligations with which they deal are the bankers' bills representing the foreign commerce—bills drawn against the importation of goods to a large extent. They do not have, in my opinion, as I understand the situation, in London the large volume of local credits that we have here.

Senator SHAFROTH. Then you do not believe the central reserve board should have the power to make effective their rate of discount?

Mr. BLINN. Not through open-market operations; no, sir.

Senator SHAFROTH. Can they, without having open-market operations?

Mr. BLINN. I believe they can.

Senator SHAFROTH. How can they do it?

Mr. BLINN. Take this statement which I have before me, showing a reserve of 83.83 per cent. If they decide they want to loan to reduce their reserve to 50 per cent, they can go into the open market and buy paper, so that their liabilities have increased to an extent that the cash, which remains constant, is a reserve of 50 per cent upon the increased liability. In doing that they will decrease the rate of discount to such an extent that there will be an expansion. The rates will become lower here than abroad, and the expulsion of gold may result from natural economic conditions.

Senator NELSON. Could not it be done in this way—I am simply asking for information: Instead of having made this rule of issuing currency by these regional reserve banks upon the face value of the commercial paper, issue it upon the discount value.

In other words, the amount of currency that would be issued on the paper discounted at these regional banks would be regulated, to some extent, by the rate of discount. If the discount was low, they would get more currency, and if it was high, they would get less.

Mr. BLINN. I do not believe that would be sound. I would not favor it.

Senator NELSON. It would be measured by the proceeds that a man got. If instead of bills, if a bank takes its notes, if a member bank takes its note to a regional bank——

Mr. BLINN (interposing). You mean its own note?

Senator NELSON. Yes. The member bank takes its own paper to a regional bank to be discounted; instead of asking for the bills of the regional bank, it wants money. Now, the amount——

Mr. BLINN (interposing). You mean a loan?

Senator NELSON. Yes. The amount of money it will get will depend on the rate of discount. If the rate is only 3 per cent, it will get more than if it is 5 per cent; the proceeds of the note will bring more cash.

Mr. BLINN. I should not favor that, Senator.

Senator NELSON. You say you should not favor it, but that does not answer my question. Would it not bring more money?

Mr. BLINN. You do not want more money.

Senator NELSON. That does not answer the question.

Mr. BLINN. I do not quite get your question.

Senator NELSON. I say if a member bank goes to a regional bank with, say, $100,000 of commercial paper, and the banker says: "I want to discount this paper, and I want the cash for it."

Mr. BLINN. Yes.

Senator NELSON. Would not the amount, the quantity of cash that that bank gets for that paper, depend on the rate of discount?

Mr. BLINN. No, sir.

Senator NELSON. Why not? Does it not make any difference if I go to your bank and have a note discounted at 5 or 3 per cent?

Mr. BLINN. It does, as to the proceeds.

Senator NELSON. And would not that same rule apply to the discounting of the notes of a member bank by a regional bank?

Mr. BLINN. I should say it did not. In other words——

Senator NELSON (interposing). Will you not kindly answer the question? Would not the same principle of business apply, that the amount of the proceeds of the paper would depend upon the rate of discount?

Mr. BLINN. It would, but the difference is so small as to be insignificant.

Senator NELSON. It may be a great deal; it may run from 3 to 6 per cent.

Mr. BLINN. I understand that is the plan. I understand that under the present bill the bank which discounts will receive only the proceeds of discounting and not the face of the note.

Senator NELSON. If that is the case, if it is the proceeds of the discounting that they receive, then the amount of currency they can get on that discounted paper will be contingent, to a limited extent, upon the rate of discount?

Mr. BLINN. It will, but the difference is insignificant.

Senator NELSON. Well, if it is insignificant, it is no more insignificant than the rate at which the different banks discount. I suppose the banks discount paper at a much lower rate in Boston than we do out West?

Mr. BLINN. A $10,000 note discounted at 6 per cent, having 60 days to run, will have a discount of $50 on that $10,000.

Senator NELSON. But on a four-month paper?

Mr. BLINN. There would not be very much of that class of paper rediscounted.

Senator NELSON. There would not be?

Mr. BLINN. As I read the bill, that would be on short-time paper.

Senator WEEKS. I want to ask a few questions about controlling the rate of interest, because this an important question which the committee will want to consider with a good deal of deliberation; whether the regional banks are to go into the open market in competition with other banks or not, or whether it is necessary for them to do it in order to control the rate of interest. Now, the Bank of England, as I understand it, controls the rate of interest, and does it effectively by simply an announcement that it raises the rate of interest one-eighth, or lowers the rate one-eighth. It is not the amount that is raised or lowered, but it is the warning to which the business world pays attention, and everybody recognizes the Bank of England as a standard, in touch with all the world; and being in touch with all the world, they immediately say, when the Bank of

England raises the rate, that there is quite likely some trouble somewhere, or there is an unusual demand somewhere, and that they had better be conservative and therefore where the increase in the rate amounts to practically nothing, as a warning it is of value to bankers not only in England but all over the world?

Mr. BLINN. That is correct.

Senator SHAFROTH. But the Bank of England deals with the individual in order to accomplish that?

Senator WEEKS. Not in order to accomplish it.

Senator SHAFROTH. That is my understanding.

Senator WEEKS. Not in order to accomplish the purpose of controlling the rate, but it is the policy over there to accept the Bank of England's statement. The very announcement of an increase in the rate, in the Bank of England's rate, is sufficient to warn the whole world that they had better be a little more conservative, and a decrease in the rate announces to the world that conditions are easier and the Bank of England believes that a further inflation is not only desirable but is reasonable. Is that your understanding?

Mr. BLINN. That is my understanding, exactly, Senator.

Senator WEEKS. I do not believe that the resources of the Bank of England would be sufficient to enable it to actually control the rate by the purchase or sale of paper.

Senator SHAFROTH. All the books I have read on that say that is the reason, and that is their practice.

Senator WEEKS. If you will take the resources of the Bank of England and the joint-stock banks of England, you will find that the Bank of England's resources would not make that practicable.

Senator SHAFROTH. There is a limitation, to some extent, but at the same time, at times you could not raise it without having the power of the Bank of England exerted in that behalf.

Senator WEEKS. The question we will have to decide is whether it is necessary, in order to control the rate, to go into the market and buy and sell paper.

Mr. BLINN. In my opinion, it is not.

Senator HITCHCOCK. If the regional bank at Chicago establishes a rate for discounting paper to the banks of Chicago and other banks in that region of, say, 4 per cent, would it not be true that those banks who have the privilege of discounting the paper at that rate are in competition with each other?

Mr. BLINN. Yes.

Senator HITCHCOCK. And any demand for loans would naturally go to one or the other, or perhaps a number of those banks?

Mr. BLINN. Yes.

Senator HITCHCOCK. If there is real competition between those banks, would not that competition result in practically establishing the rate of the regional bank?

Mr. BLINN. I think the inverse would be true. I think if the Federal bank at Chicago, say, increases its rate from 4 to 4½ per cent immediately the open rate would be increased. The purpose of increasing the rate is to shut off credit, because transactions that are profitable at 4 per cent are not profitable at 4½ per cent. When the rate gets to 6 per cent naturally credit is denied, or, rather, enough credit is not applied for, so that a bank is unable to take care of the

demands upon it with this kind of resources. That is the purpose of increasing the rate of interest—to shut off credit and minimize the demand. The purpose of decreasing the rate is to invite demands for money. Transactions that would not be profitable at 4 per cent would be profitable at 3½ or 3 per cent.

Senator HITCHCOCK. Now, then, the point I am getting at is to inquire whether the rate established by the regional bank would practically go into operation by reason of the competition of the member banks with each other?

Mr. BLINN. I do not think it would result in competition. The market rate is established, and while banks do compete with one another we all know the prevailing rate, and the prevailing rate would be the same, because if we have a customer who is also a customer of another, bank a competitor of ours, and the customer comes in to us and we quote him a rate of 5½ per cent, he will immediately say, "I was at the blank bank this morning and borrowed $5,000 at 5 per cent" and we will say, "All right," and we will have to meet that. If our competitor banks loan money to our customers at 5 per cent, we must meet that rate in competition.

Senator HITCHCOCK. Would not the question as to whether the rate in the regional bank be established or not depend on whether it was a practical rate?

Mr. BLINN. It would; that is something for the directors to decide.

Senator HITCHCOCK. In other words, if the regional bank in Boston found that it had $2,000,000 available cash, and it reduced its rate one-half of 1 per cent, and if your bank is able to take advantage of it——

Mr. BLINN. It would be opening another; yes.

Senator HITCHCOCK. A customer's going from one bank to another to ascertain the low rate would ultimately result in establishing the rate of the regional bank?

Mr. BLINN. It would.

Senator HITCHCOCK. Now then, let me ask you this question: Suppose the regional bank undertakes to push loans upon the public that are not spontaneously desired. What would be the result?

Mr. BLINN. Direct expansion, and inflation of gold.

Senator HITCHCOCK. That would be the inevitable result of such a policy?

Mr. BLINN. Yes, sir.

Senator HITCHCOCK. And the very purpose of the bill is not to crowd loans upon the public, but to give the banks facilities to respond to the natural demand?

Mr. BLINN. That is it exactly.

Senator HITCHCOCK. Awhile ago you told of the inevitable contraction of credit which would result at the time this bill should become a law. I think you confined yourself to the central reserve cities?

Mr. BLINN. Yes.

Senator HITCHCOCK. And you found a contraction of probably $200,000,000?

Mr. BLINN. Yes.

Senator HITCHCOCK. Would there not be a contraction of credit in the 48 reserve cities of a corresponding size?

Mr. Blinn. There would be, to a small extent. So many questions came in at that time that I did not finish what I wanted to say in regard to that particular point.

Senator Hitchcock. I understand there are about 48 reserve cities?

Mr. Blinn. Yes.

Senator Hitchcock. And in those cities there are about 350 banks known as reserve banks?

Mr. Blinn. Yes.

Senator Hitchcock. They hold approximately $350,000,000 of deposits of country banks?

Mr. Blinn. Yes.

Senator Hitchcock. When those country banks take down those reserves and transfer their funds to the reserve banks, what would be the resources of those 350 banks in the 48 reserve cities to secure the necessary money to make that transfer?

Mr. Blinn. They would have $68,000,000 in cash, above their new cash reserve requirements.

Senator Hitchcock. $68,000,000? But the new reserve requirement does not go into effect until the bill is in operation?

Mr. Blinn. My figures are the figures in connection with the result of the plan at the end of 38 months.

Senator Hitchcock. But, in my opinion, the contraction is going to occur at the initial stage, because the new reserve does not go into effect until after the plan is in operation, and the present reserve remains in effect for perhaps a year or two, so that I think you are in error in regard to your $68,000,000 of safety.

Senator Nelson. It takes 38 months, you know.

Mr. Blinn. Yes. I have no figures giving the detailed operations at the end of 60 days, but I am confident the plan would operate in the two or three other stages along the general principles of those figures, although I have not gone any further than that.

Senator Hitchcock. I will let you go ahead now, Mr. Blinn, and not interrupt you any more at this time.

Mr. Blinn. The reserve banks in 48 reserve cities would not be obliged to contract loans or rediscounts unless they decided that the balances remaining at their credit with central reserve agents, which I figure to be 6½ per cent at present—if they decided they must increase their balances with the central reserve agents for the conduct of their business, then it would require that they should contract loans to some extent, or rediscount.

Now, the central reserve banks would be obliged to rediscount or contract loans to the extent of $200,000,000, but I want to make it very clear to the committee that if rediscounts are made, and the regional banks discount those rediscounts, the regional banks will still have a reserve of 83 per cent.

Senator Hitchcock. Take my town of Omaha. My recollection is that the banks there have $20,000,000 on deposit belonging to country banks. A large part of that must be checked off and transferred to the regional reserve bank of that district.

Mr. Blinn. Yes.

Senator Hitchcock. Say, I do not know what quantity it would be, but estimate it to be about $14,000,000.

Mr. Blinn. Yes.

Senator HITCHCOCK. I have failed to find in the statement of the banks how they can raise that money except by calling the loans of their customers to a considerable extent.

Mr. BLINN. Their reserve requirements are materially decreased.

Senator HITCHCOCK. They will ultimately be, but are not now, because the new banks would not be organized for some time.

Mr. BLINN. At the end of 60 days—I have no figures upon that, and I can not answer your question at this time.

Senator HITCHCOCK. That is disturbing all the banks in the Central West at the present time, how they are going to be able to procure that large sum of money without contracting other credits and calling their loans. I think some of the very conservative ones have already begun calling in loans in anticipation of hasty action.

Senator SHAFROTH. Can they not get all there is of it by going to the reserve bank and saying we will take our paper to another bank?

Senator HITCHCOCK. There are two reasons why they can not do that. The reserve banks will not be ready for business until over a year. In the second place, we have a lot of gray-haired bankers in the West who abhor rediscounts, and who will not be driven into rediscounting unless it is necessary to save the bank. They will not loan money on a small margin and then sell the paper where they may be called upon to make good.

I believe ultimately these bankers may be converted to the European practice of rediscounting, but I am very certain that a great many of them look on it with a good deal of aversion to-day, and they are going to be slow in taking it up.

Senator BRISTOW. It is very difficult to change habits and customs by a resort to legislative action.

Senator HITCHCOCK. You do not consider, Mr. Blinn, a contraction resulting from a transfer of the reserves in the reserve cities as serious as you do in the three central reserve cities?

Mr. BLINN. I do not; no. Under the plan, as originally introduced, the reserve bank would have been obliged to rediscount or contract 113 millions. The central reserve banks would have been obliged to contract or rediscount 259 millions, making a total rediscount or contraction of 372 millions, against 219 millions under the present plan. As a result of the recommendations of the Chicago conference, the bank would have started without a dollar of rediscount, and had assets of 500 millions, with no loans.

I have one more point I should like to speak of, and that is the question of drafts or bills of exchange, as it appears on page 26 of the bill:

Any national bank may, at its discretion, accept drafts or bills of exchange drawn upon it having not more than six months' sight to run and growing out of transactions involving the importation or exportation of goods.

I have tried to figure out how a bank would accept on an export transaction. I do not believe it would be used on an export transaction. It would be used particularly on import transactions, and I should like to suggest that that section be amended to permit banks to accept on domestic transactions not involving importations of goods. For example, the southerner selling his cotton to the northern mill may desire—the mill in buying that cotton may desire additional credit facilities. If it would arrange with its local bank to

accept drafts drawn for the shipment of that cotton, drafts drawn by the sellers, they will materially aid the financing of cotton sales. Those are the only suggestions I have to make.

Senator SHAFROTH. The theory under which I understand that was put in was to give the American business man the advantage of that six months in order to compete with the uniform practice which exists, as I understand, in London, and to allow discounts for that length of time, and the reason it has not been extended to domestic exchange drafts, as I understand it, is because it would affect the liquidity of the assets of banks if all domestic transactions were included; that it might make it undesirable to have so much of the assets in six-month paper.

Mr. BLINN. Yes; it would furnish a most excellent form of a commercial bill that banks buying paper in the outside market would be only too glad to obtain. Such paper would be very liquid. Perhaps the length of time would be objectionable. In fact, I think, on domestic transactions, the time should be reduced to 60 days.

Senator SHAFROTH. Then you would not have this six-month provision extend to the domestic institutions?

Mr. BLINN. I think it is fully long. I think four months would be sufficient to cover practically all transactions.

Senator BRISTOW. Why should you give more respect to a shipment to the Orient than to notes given out in Minnesota, for instance?

Senator SHAFROTH. They claim they will not be able to do that at all in this country because six months' time is required to get the products here.

Senator BRISTOW. We have evidence here that it is required in Minnesota——

Senator SHAFROTH (interposing). But the point of the bill is that our domestic drafts are to be kept short in order to make them liquid, and that is the reason the witness believes in making the time 60 instead of 90 days.

Senator BRISTOW. That will do, perhaps, for a certain kind of paper handled in the East, but it is of no account in the West at all.

Senator NELSON. I want to call your attention to a provision on page 30 of the bill, commencing on line 4, with the word "such." That relates to the plan for this regional currency, this reserve currency, and it says:

> Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued in pursuance to such application.

I do not see how you can infer from that that it is limited to the discount value of the paper. Would it not be the par value of the paper?

Mr. BLINN. That is on page 30 you say?

Senator NELSON. Yes; beginning on line 4.

Mr. BLINN. Yes; I see that now. Yes, it becomes necessary for the discounting bank to send the Federal bank its check in payment for the discount.

Senator NELSON. This would imply that they would be entitled to regional notes, notes of the regional banks to the amount of the face value of the notes, would it not?

Mr. BLINN. It would; yes, sir.

Senator NELSON. Now, I will put a concrete case to you, for the purpose of showing, to my mind, a method by which you could prevent inflation. Suppose you are a regional bank, and I am a member bank. I come to you with a bundle of notes and bills. I want them discounted and I want your currency. You say that your discount rate is 7 or 8 per cent., and I shake my head and say I do not want any of your currency if your rate is as high as that. If you tell me your rate is 3 per cent, I will say give me your currency. Would that not be a way of checking the inflation of the currency, to allow the regional banks to fix the rate of discount, as against paper that was presented to it for note issue?

Mr. BLINN. That is the purpose of the bill.

Senator NELSON. No; never mind what the bill is. I am putting this question to you. I am putting this concrete case to you.

Mr. BLINN. I may be dense. I do not get your point of view.

Senator NELSON. Just imagine that you are a regional bank and I am a member bank. As a member bank I come to you with $100,000 in commercial paper that you are authorized to discount. You say to me, "I can only discount that paper and give you bills at the rate of 7 or 8 per cent." I say, "If that is your rate I do not want it," and I leave your bank and I do not take out any notes. But if you say, "I will discount that paper and issue notes to that extent at the rate of 3 per cent," I will say, "Here are my notes; give me your currency." Would that not be a way in which to regulate to some extent the issue of the currency and prevent inflation?

Mr. BLINN. I do not think the actual transaction that you have described would make any difference. I do not think it would. The rate of discount, the prevailing rate of discount, would, of course, affect the volume of notes.

Senator NELSON. That is what I mean.

Mr. BLINN. It certainly would. In other words, with a prevailing rate of 8 per cent there would be fewer calls for notes than if the rate were 3 per cent.

Senator NELSON. That is what I mean exactly. So, would the volume of the notes not be regulated in that way?

Mr. BLINN. It would be one of the factors; yes, sir.

Senator NELSON. That is the point; that is what I mean. Could you not in that way regulate, indirectly, the rate of interest?

Mr. BLINN. That is one of the contributing factors.

Senator NELSON. And might you not let them, instead of issuing the par value—let them issue bills, and by that I mean new notes—issue bills for the discount value of the paper, not the face value, and by giving the regional banks that power indirectly it would affect the rate of interest, and indirectly it would put a limited brake upon the volume of the currency?

Mr. BLINN. It would; it would be one of the contributing factors.

Senator NELSON. That is what I mean.

Senator SHAFROTH. Can you not leave the tables that you have and let them go into the record?

Mr. BLINN. Yes, sir; I can leave them with the committee.

Senator NELSON. I ask that they go into the record. They are very valuable tables.

Mr. BLINN. Do you wish the abstract of the comptroller's reports?

Senator NELSON. Yes; and the letters which you have there ought to go in.

Mr. BLINN. Those which I have read have already been put into the record.

Senator HITCHCOCK. The chairman requested that the computations which you have made should go into the record.

Mr. BLINN. I am perfectly willing to have that go in. They have been published. That is simply an assembling of the figures.

Senator NELSON. There is one more question I would like to ask you. Do you not think the bill ought to be amended in order to have the reserve for the note issue of 33⅓ per cent absolutely in gold and not "gold or other lawful money"?

Mr. BLINN. I intended to say in the beginning that we have three other members of the committee present, and we have divided the discussion of this subject, and one of the other members of the committee will take up that phase of the matter. That is why I have avoided discussing it.

Senator WEEKS. I want to get one matter clear for the record. I think it is not clear now. That is what you have stated in regard to the necessity for contraction in central reserve cities. You mean that the contraction will be necessary unless it is possible for the banks in the central reserve cities to rediscount?

Mr. BLINN. I do not mean just that, Senator. I mean this: That a condition confronts them whereby they must realize $219,000,000 to enable them to make the payment required of them for the regional banks. Two ways are open to them, one to take their paper and rediscount it with the regional bank; the other method is to ask concerns whose paper they hold which has been purchased on the outside market to pay those notes as they mature. In other words, realize upon their assets.

Senator WEEKS. What I mean to say is that if it were possible for them to rediscount the $219,000,000, or whatever the amount is, with a reserve bank, then there would not be any contraction of the credits would there?

Mr. BLINN. There would not be.

Senator WEEKS. Therefore, if the reserve banks were in condition to commence business on the day it is necessary to pay this money over and install the new paper and rediscounting could be commenced at once, it would prevent the necessity of contraction would it not?

Mr. BLINN. It would; yes, sir.

Senator BRISTOW. Well, Senator Hitchcock asked you your opinion as to what contraction there would be in the preliminary period. Would it be possible, under the bill, to change from one method to the other without contraction?

Mr. BLINN. If the bank will rediscount freely and not ask for the payment of obligations in their hands.

Senator BRISTOW. How is the regional bank to rediscount when it has nothing to rediscount with? Where is it going to get the money to rediscount?

Mr. BLINN. You do not propose under this plan to have $105,000,000 put in and hold it for any long time without using it.

Senator BRISTOW. It is to be paid in. Where is the money to come from to be paid in?

Mr. BLINN. Why can not it be paid in, sir, in the form of cash or rediscount. If you operate this bank and ask for the payment of

$105,000,000 capital immediately and lock it up and let it stay there for six months you of necessity will compel a contraction of credit. You are forcing the banks to contract their loans. I assume, of course, that banks being organized would simultaneously loan their funds as well as receive them. It would be wrong in theory—in principle, for the regional banks to receive payment of their capital to the extent of $105,000,000. That $105,000,000 will support the credit of eight times its amount and the business of the country needs it.

Senator BRISTOW. They could not loan back but two-thirds of it.

Mr. BLINN. They could loan their entire capital. They do not carry any reserve on capital. They can loan their entire capital.

Senator BRISTOW. That is, if a bank at Salina, Kans., became a stockholder, with its capital, we will say, $100,000. It would be compelled to subscribe for $20,000 of capital; but $10,000 would be paid in within the first few days, and then 5 per cent of its deposits. You figure that would simply be a transfer of paper, do you not?

Mr. BLINN. Not in a country bank; no, sir. I figure that a country bank would pay part cash and the balance would be paid by drawing a check on its correspondent.

Senator BRISTOW. Does not that take from the country bank a part of its resources?

Mr. BLINN. No, sir. It does not take any of its loaning ability whatever. In other words, the reserve which it is obliged to carry is decreased in amount.

Senator BRISTOW. But that is not equivalent to its capital subscription and its deposit of 5 per cent.

Mr. BLINN. The country bank will be able to take care of all those payments through the payment of cash in excess of its new reserve, and by drawing upon its correspondent for the balance in excess of what it will need. For business needs under the new plan the bank will not be obliged to rediscount a dollar.

I have a reserve summary here. The country banks at the present time are carrying excess reserves to the extent of $216,000,000. Under the new plan when the varying period for our excess reserves——

Senator BRISTOW. You are talking about this varying period.

Mr. BLINN. Yes.

Senator BRISTOW. I am talking about the period of transition.

Mr. BLINN. They have excess reserves to-day of $36,000,000 of cash and $180,000,000 of all issues, a total of $216,000,000.

Senator BRISTOW. That is an excess over the legal requirement.

Mr. BLINN. Yes; that is in excess over the legal requirements.

Senator BRISTOW. That excess is needed in our business transactions of the country, is it not?

Mr. BLINN. Yes.

Senator HITCHCOCK. If you will permit me to ask a question or two, Senator Bristow, I think I will be able to clear up what you are getting at.

Senator BRISTOW. Certainly.

Senator HITCHCOCK. The question Senator Bristow and I have been interested in is whether, under the terms of this bill, in the first place these banks will not be required to put up $105,000,000. Under the provisions of this bill the first thing will be an organization committee, organized here in Washington. They are permitted

three months in which to organize the country into 12 districts, and after they have been organized the banks will then be invited to become members. When a sufficient number of banks have decided to become members to organize the 12 districts the following provision will then take place:

> Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to 20 per centum of the capital stock of such national bank fully paid in and unimpaired, one-fourth of which subscription to be paid in cash and one-fourth within 60 days after said subscription is made.

Senator NELSON. That means cash; it does not mean paper.

Senator HITCHCOCK. That means 10 per cent of the cash of the bank's capital must be paid in within 60 days. You have not got your reserve association organized even yet, because after the stockholders have themselves been established they have to elect the directors, and under a computation which I have had made it will take three or four months to elect the directors.

Senator HOLLIS. Senator, do you think the words "to be paid in cash" mean that they must put in the cash? When you buy goods you have time to make your payment. Of course, it is said that you pay cash; but time, reasonable time, is allowed. I think that might be the meaning which could be given to that language here.

Senator HITCHCOCK. If it provides that you are to pay in chips and scraps I think it should be so stated in the bill. We are assuming that we are going to organize with a capital here. It is not to be a Christian Science capital or an imaginary capital.

Senator HOLLIS. They might pay notes which they could turn into cash.

Senator HITCHCOCK. I think Mr. Blinn has correctly stated it when he said that a bank in the West is either going to be forced to ship the cash or to draw a check upon its reserve agent.

Senator BRISTOW. How would you define a measure to require a cash payment? What language would you use, that could properly be added to the bill?

Senator HOLLIS. I would change these words here. I would have a bill drawn so that they could go there with commercial paper and deposit it.

Senator HITCHCOCK. To whom would that commercial paper be submitted? No directors have been elected.

Senator HOLLIS. I would have the bill so arranged.

Senator HITCHCOCK. You have no organization. You have no directors.

Senator HOLLIS. Well, the bill is here to be perfected. We are now getting some good ideas. I would make this bill meet that situation.

Senator HITCHCOCK. I am talking about the bill as it is.

Senator NELSON. Then the bank would start practically with commercial paper, and it would not have any kind of money to redeem its pledges.

Senator HOLLIS. It must have the money before it begins business.

Senator HITCHCOCK. So that this bill provides for the payment of $105,000,000 cash months and perhaps a year before the reserve banks are going to be ready for business.

Mr. BLINN. That seems to be the fact; yes, sir.

The CHAIRMAN. Mr. Blinn, I will ask you if the country banks could not check that money out of the reserve city banks—out of the reserve released in the reserve city banks—without any harm to the reserve city banks whatever?

Mr. BLINN. As I said before, they must provide $220,000,000 from some source.

The CHAIRMAN. Your theory proceeds upon a period 38 months distant. I am speaking of the immediate present. I want to call your attention to the net deposits of the 52 reserve city banks which, on the June statement, are $1,568,000,000. Under the terms of this bill the relinquishment of 7 per cent of that, which is now in bales of money in the vaults and in sacks of gold in the vaults, and which are not used but which are simply reserved there, would be releasing 7 per cent of $1,568,000,000.

Mr. BLINN. How do you figure 7 per cent?

The CHAIRMAN. The difference between 18 and 25.

Mr. BLINN. No; that is not cash. The difference is between 12½ and 9 per cent, or 4½ per cent.

The CHAIRMAN. The total reserve of the central reserve cities is what I refer to.

Mr. BLINN. You are speaking of the total reserve of the central reserve cities.

The CHAIRMAN. I am speaking of the central reserve city banks. The central reserve city banks are required to pay 25 per cent.

Senator HITCHCOCK. That is releasing seven twenty-fifths of the whole.

The CHAIRMAN. It is releasing seven twenty-fifths of $1,568,000,000, which would more than furnish the amount required for this purpose.

Senator HITCHCOCK. I would like to ask the chairman before his question is answered when that release will occur.

The CHAIRMAN. That release begins to occur in 60 days.

Senator HITCHCOCK. Sixty days from what?

The CHAIRMAN. From the beginning of the organization.

Senator HITCHCOCK. After they are ready for business?

The CHAIRMAN. Yes; after they are ready for business.

Senator HITCHCOCK. I am talking about the time before they are ready for business.

The CHAIRMAN. I think the real thing which should be sought to be accomplished in the matter is to correct this bill as to these periods of time and not to be simply criticizing the measure. It is obviously the necessity of the case that we must perfect the measure; but the central reserve city banks which now carry 25 per cent would release 7 per cent, even if there was not a dollar of rediscount. I concede that there may be some delay about prompt rediscounting with some banks, but not all of them.

Mr. BLINN. The chairman is correct, if the new reserve requirement becomes a law that $284—that is not the figure. I have it down 10 per cent cash. There would be 7 per cent of the reserve, which would amount to practically the $105,000,000 which is required to be paid in for the capital.

Senator HITCHCOCK. I am seeking to establish the fact that the bill at the present time provides for the payment of $105,000,000 capital, within 60 days from the time the banks subscribe it, which is months before the directors are elected and months before the proclamation of

the Secretary of the Treasury that the reserve organization has been made, and that is evidently the condition of the bill now, I think. The new reserve requirements do not go into effect until the Secretary of the Treasury shall have officially announced in such manner as he may elect the fact that a Federal reserve bank has been established in a designated district. He can not possibly announce that fact before the directors are elected, before an office is opened, and before the bank is ready for business. So, I say, that the $105,000,000 has to be paid in, according to the terms of the bill, long before any individual bank can by any means get any possible benefit out of it.

The CHAIRMAN. I would like to call the attention of the Senator from Nebraska to the fact that under this bill any national bank has 12 months in which to come in, and it does not have to subscribe within 12 months, and even within that time they may, and will doubtless, subscribe from time to time at their convenience, according to the will of the various directors; but so far as these reserves are concerned, under this bill in its present form on page 38, it is provided that within 60 days after the date fixed by the Secretary of the Treasury the reserve shall be reduced to 18 per cent. That will release 7 per cent, or $768,000,000, more than sufficient to immediately provide for this, if necessary, without any discounts whatever. Besides that the discounts which would be available under the public funds of $200,000,000, two-thirds of which would be capable of being loaned, would furnish a further sum of cash which would be available, if necessary, to put into the banks. It might not need the cash because it could get the rediscounts immediately. I merely say that much in defense of the bill in its present form.

Senator WEEKS. That is assuming that the reserve banks were immediately organized and ready for business. I assume that until the banks are organized the stock will not be paid in, and I think we may reasonably assume that.

Senator BRISTOW. But in this process of organization, in the collection of $5,000,000 capital for each bank——

Senator SHAFROTH. Do you mean for each bank?

Senator BRISTOW. Yes; I am speaking of the individual bank. During that period the banks have to be ready. They do not know when this may be perfected, and it seems to me inevitable——

The CHAIRMAN. I would say to the Senator from Kansas that the country banks have with reserve agents $496,000,000, which they can check on.

Senator BRISTOW. Do you not think that the country banks have use for that money?

The CHAIRMAN. No; they are getting 2 per cent on it.

Mr. BLINN. I think they get more than 2 per cent at home.

The CHAIRMAN. I merely wish to point out these facts in view of the criticism which has been made of the bill.

Senator HITCHCOCK. But the reserves are to be called for before the reserve bank is ready for operation.

The CHAIRMAN. The theory is that within 60 days after the declaration is made these reserves will be loaned.

Senator HITCHCOCK. It is at least 60 days after the reserves are made and the system is in operation.

The CHAIRMAN. Incidentally there is a reduction of 5 per cent, which would meet the contingency.

Are there any other questions members of the committee wish to ask Mr. Blinn?

Senator WEEKS. I want to ask Mr. Blinn one question. As a circulating medium, are you in favor of Treasury notes or bank notes?

Mr. BLINN. I am strongly in favor of bank notes. I do not like the idea of their being Treasury notes. I have avoided that subject, however, for the reason that one of the subsequent speakers will dwell on it.

The CHAIRMAN. If there are no further questions, we will ask the next witness to proceed.

(The statements mentioned by the witness are as follows:)

Abstracts of comptroller's reports—Bank statistics.

Date.	All banks.											
	Loans.	Investments.	Cash.	Deposits.			Bank payments and rediscounts.	Reserve.			Number banks.	Capital, surplus, and profit.
				Individual.	Total.	Net.		Legal.	Actual.	Cash.		
1906.								P. ct.	P. ct.	P. ct.		
Sept. 4....	4,331	675	626	4,200	5,897	4,927	48	20.70	25.72	12.70	6,137	1,505
Nov. 12...	4,419	666	634	4,289	6,031	4,970	44	20.80	25.48	12.75	6,199	1,535
1907.												
Jan. 26....	4,505	659	695	4,115	5,952	5,154	27	21.53	26.87	13.48	6,288	1,551
Mar. 22....	4,572	682	656	4,269	6,061	5,140	35	20.74	25.45	12.76	6,344	1,579
May 20....	4,664	679	691	4,322	6,190	5,225	39	21.22	25.79	13.22	6,429	1,604
Aug. 22...	4,709	700	701	4,319	6,076	5,256	59	21.33	25.56	13.33	6,544	1,631
Dec. 3.....	4,622	705	660	4,176	5,800	4,906	101	21.31	24.72	13.45	6,625	1,651
1908.												
Feb. 14....	4,452	714	788	4,105	5,924	5,038	51	23.47	28.14	15.64	6,698	1,648
May 14....	4,551	735	861	4,312	6,188	5,296	38	23.94	28.41	16.25	6,778	1,670
July 15....	4,640	765	849	4,374	6,330	5,464	42	23.19	27.81	15.53	6,824	1,667
Sept. 23...	4,781	799	868	4,548	6,617	5,695	53	22.97	28.29	15.24	6,853	1,689
Nov. 27...	4,879	803	844	4,720	6,804	5,773	39	22.32	27.30	14.62	6,865	1,700
1909.												
Feb. 5.....	4,869	839	860	4,699	6,836	5,898	24	22.36	27.82	14.58	6,887	1,700
Apr. 28....	4,987	865	878	4,826	6,934	6,018	28	22.38	27.20	14.58	6,893	1,729
June 23....	5,061	877	885	4,898	7,009	6,074	34	22.37	26.96	14.57	6,926	1,744
Sept. 1....	5,158	898	854	5,009	7,079	6,164	50	21.67	26.05	13.85	6,977	1,746
Nov. 16...	5,190	870	804	5,120	7,056	6,046	43	21.31	25.26	13.29	7,006	1,779
1910.												
Jan. 31....	5,263	846	833	5,190	7,208	6,163	34	21.47	25.52	13.51	7,045	1,779
Mar. 29....	5,464	847	834	5,227	7,265	6,320	41	21.21	25.24	13.19	7,082	1,825
June 30....	5,455	850	820	5,287	7,257	6,196	69	21.22	24.44	13.23	7,145	1,851
Sept. 1....	5,496	854	851	5,145	7,140	6,247	91	21.57	25.19	13.62	7,173	1,876
Nov. 10...	5,497	856	816	5,304	7,261	6,206	71	21.18	24.75	13.14	7,204	1,899
1911.												
Jan. 7.....	5,443	884	836	5,113	7,156	6,267	44	21.40	25.33	13.33	7,218	1,892
Mar. 7.....	5,588	927	908	5,304	7,576	6,618	33	21.67	26.52	13.72	7,216	1,909
June 7.....	5,634	995	946	5,478	7,675	6,689	46	22.10	26.10	14.14	7,277	1,933
Sept. 1....	5,690	1,018	895	5,490	7,628	6,684	78	21.36	25.05	13.39	7,301	1,929
Dec. 5.....	5,695	1,026	863	5,536	7,675	6,670	64	21.05	24.72	12.93	7,328	1,958
1912.												
Feb. 20....	5,833	1,029	950	5,630	8,067	7,030	40	21.44	26.24	13.51	7,339	1,958
Apr. 18....	5,902	1,028	931	5,712	8,015	6,997	44	21.30	25.39	13.30	7,355	1,978
June 14....	5,973	1,046	945	5,825	8,064	7,050	58	21.35	24.94	13.40	7,372	1,984
Sept. 4....	6,061	1,040	896	5,891	8,130	7,093	82	20.69	24.57	12.63	7,397	1,989
Nov. 26...	6,085	1,037	859	5,944	8,109	7,035	72	20.35	23.89	12.21	7,420	2,015
1913.												
Feb. 4.....	6,147	1,044	933	5,985	8,361	7,277	51	20.91	24.99	12.82	7,425	2,008
Apr. 4.....	6,198	1,051	888	5,969	8,227	7,219	56	20.44	23.99	12.30	7,440	2,027
June 4.....	6,162	1,050	914	5,953	8,144	7,124	73	20.95	24.02	12.82	7,473	2,046
Aug. 9....	6,187	1,040	899	5,761	7,948	7,097	109	20.72	24.01	12.67	7,488	2,041

Abstracts of comptroller's reports—Bank statistics—Continued.

	Central reserve banks.						
	Loans.	Invest-ments.	Cash.	Deposits.			Reserve.
				Indi-vidual.	Total.	Net.	
1906.							*Per cent.*
Sept. 4	1,017	159	282	866	1,639	1,172	24.37
Nov. 12	983	156	281	846	1,611	1,129	25.31
1907.							
Jan. 26	1,054	150	322	666	1,486	1,222	26.74
Mar. 22	1,039	157	294	770	1,548	1,180	25.26
May 20	1,097	150	325	794	1,642	1,241	26.50
Aug. 22	1,061	159	311	739	1,508	1,205	26.18
Dec. 3	1,112	177	252	783	1,532	1,157	22.20
1908.							
Feb. 14	1,072	178	355	761	1,616	1,259	28.62
May 14	1,139	182	418	886	1,797	1,424	29.70
July 15	1,196	191	413	889	1,849	1,501	27.85
Sept. 23	1,243	199	432	961	1,968	1,572	27.81
Nov. 27	1,297	190	410	1,059	2,059	1,595	25.98
1909.							
Feb. 5	1,286	197	404	965	1,986	1,586	25.73
Apr. 28	1,300	202	413	1,011	2,018	1,619	25.76
June 23	1,309	198	434	1,028	2,057	1,635	26.82
Sept. 1	1,307	210	409	1,038	2,029	1,624	25.44
Nov. 16	1,193	202	356	1,015	1,876	1,432	25.19
1910.							
Jan. 31	1,246	182	382	1,070	1,994	1,496	25.88
Mar. 29	1,300	179	376	1,014	1,922	1,527	24.92
June 30	1,246	184	361	1,076	1,975	1,462	24.96
Sept. 1	1,277	188	400	961	1,982	1,515	26.68
Nov. 10	1,210	185	349	988	1,848	1,391	25.44
1911.							
Jan. 7	1,206	203	363	819	1,740	1,423	25.83
Mar. 7	1,350	218	437	953	2,029	1,647	26.77
June 7	1,339	246	455	1,050	2,103	1,679	27.37
Sept. 1	1,321	245	422	1,043	2,037	1,640	26.00
Dec. 5	1,250	246	379	956	1,913	1,522	25.16
1912.							
Feb. 20	1,410	228	457	1,001	2,155	1,741	26.49
Apr. 18	1,397	216	431	1,021	2,084	1,686	25.87
June 14	1,410	223	448	1,092	2,128	1,725	26.19
Sept. 4	1,384	218	403	1,056	2,056	1,647	24.74
Nov. 26	1,298	212	367	1,021	1,934	1,521	24.39
1913.							
Feb. 4	1,388	218	425	1,031	2,097	1,678	25.58
Apr. 4	1,359	209	383	984	1,968	1,592	24.33
June 4	1,316	211	405	975	1,946	1,568	26.12
Aug. 9	1,375	211	407	900	1,892	1,619	25.41

Abstracts of comptroller's reports—Bank statistics—Continued.

	Reserve banks.								
	Loans.	Investments.	Cash.	Deposits.			Bank payments and rediscounts.	Reserve.	
				Individual.	Total.	Net.		Legal.	Actual.
1906.								*P. ct.*	*P. ct.*
Sept. 4	1,166	157	166	985	1,672	1,370	11	24.52	27.87
Nov. 12	1,208	147	167	1,015	1,725	1,372	11	24.32	26.72
1907.									
Jan. 26	1,203	144	187	982	1,719	1,410	6	25.85	29.71
Mar. 22	1,230	150	172	996	1,724	1,405	11	24.31	27.13
May 20	1,235	154	177	1,020	1,761	1,425	8	24.86	28.00
Aug. 22	1,246	156	190	1,012	1,722	1,423	13	25.46	27.48
Dec. 3	1,186	143	162	937	1,551	1,263	30	24.72	26.55
1908.									
Feb. 14	1,157	146	200	932	1,611	1,317	15	27.37	30.44
May 14	1,162	157	217	1,004	1,692	1,397	6	27.87	31.63
July 15	1,178	167	219	1,033	1,759	1,457	6	27.44	31.81
Sept. 23	1,235	175	219	1,067	1,854	1,549	8	26.84	32.17
Nov. 27	1,257	178	215	1,100	1,894	1,561	6	26.44	30.76
1909.									
Feb. 5	1,255	191	233	1,106	1,923	1,614	3	27.14	31.94
Apr. 28	1,305	200	236	1,143	1,971	1,656	4	26.96	30.73
June 23	1,335	201	229	1,179	2,000	1,681	4	26.28	30.15
Sept. 1	1,376	199	225	1,218	2,054	1,718	8	25.65	29.05
Nov. 16	1,401	182	221	1,234	2,043	1,676	8	25.56	27.60
1910.									
Jan. 31	1,395	183	220	1,211	2,035	1,686	3	25.53	28.00
Mar. 29	1,479	188	226	1,267	2,125	1,768	5	25.27	27.92
June 30	1,469	183	224	1,275	2,088	1,724	8	25.30	27.25
Sept. 1	1,458	181	221	1,240	2,064	1,714	13	25.31	28.04
Nov. 10	1,476	178	226	1,272	2,096	1,706	12	25.36	27.05
1911.									
Jan. 7	1,453	186	232	1,246	2,078	1,718	7	25.81	28.17
Mar. 7	1,480	197	234	1,279	2,193	1,820	3	25.49	30.05
June 7	1,500	217	246	1,336	2,216	1,849	4	26.03	29.29
Sept. 1	1,528	220	238	1,325	2,209	1,850	8	25.46	27.82
Dec. 5	1,542	219	237	1,355	2,251	1,853	11	25.34	27.44
1912.									
Feb. 20	1,540	229	250	1,342	2,313	1,917	4	25.59	29.38
Apr. 18	1,560	233	251	1,379	2,342	1,918	7	25.61	28.56
June 14	1,584	236	250	1,420	2,329	1,933	8	25.48	28.13
Sept. 4	1,627	232	243	1,421	2,368	1,960	9	24.84	26.18
Nov. 26	1,634	231	235	1,412	2,345	1,927	10	24.48	26.05
1913.									
Feb. 4	1,627	231	247	1,412	2,398	1,978	6	25.09	28.13
Apr. 4	1,652	239	242	1,417	2,370	1,974	9	24.75	26.65
June 4	1,643	235	242	1,436	2,352	1,946	11	24.83	26.50
Aug. 9	1,601	222	241	1,340	2,234	1,882	20	25.27	27.48

Abstracts of comptroller's reports—Bank statistics—Continued.

	Country banks.								
	Loans.	Investments.	Cash.	Deposits.			Bank payments and rediscounts.	Reserve.	
				Individual.	Total.	Net.		Legal.	Actual.
1906.								*P. ct.*	*P. ct.*
Sept. 4	2,147	357	177	2,347	2,585	2,385	36	16.71	25.16
Nov. 12	2,227	362	184	2,427	2,694	2,468	32	16.77	24.86
1907.									
Jan. 26	2,247	364	184	2,466	2,746	2,521	20	16.59	25.34
Mar. 22	2,302	374	190	2,502	2,787	2,555	24	16.70	24.61
May 20	2,331	373	188	2,508	2,786	2,558	31	16.64	24.21
Aug. 22	2,401	384	199	2,567	2,845	2,627	44	16.88	24.24
Dec. 3	2,323	384	246	2,456	2,717	2,485	69	19.17	24.97
1908.									
Feb. 14	2,222	388	232	2,411	2,696	2,462	35	18.75	26.66
May 14	2,249	395	235	2,422	2,698	2,474	31	18.40	25.85
July 15	2,266	407	215	2,451	2,721	2,505	35	17.92	25.47
Sept. 23	2,302	425	215	2,518	2,795	2,573	44	17.68	26.24
Nov. 27	2,324	434	218	2,561	2,851	2,616	32	17.63	26.04
1909.									
Feb. 5	2,327	450	222	2,628	2,926	2,697	20	17.52	26.57
Apr. 28	2,381	463	228	2,671	2,944	2,742	23	17.63	25.92
June 23	2,416	477	222	2,690	2,951	2,757	29	17.34	25.09
Sept. 1	2,474	488	219	2,753	2,996	2,821	40	17.08	24.58
Nov. 16	2,596	484	226	2,870	3,137	2,938	34	17.00	23.95
1910.									
Jan. 31	2,622	480	229	2,909	3,178	2,980	30	16.97	23.94
Mar. 29	2,684	479	232	2,945	3,217	3,023	34	16.96	23.83
June 30	2,740	482	235	2,935	3,193	3,009	60	17.07	22.57
Sept. 1	2,760	484	230	2,944	3,193	3,017	74	16.88	22.81
Nov. 10	2,810	492	239	3,043	3,316	3,108	58	16.99	23.18
1911.									
Jan. 7	2,783	493	240	3,047	3,334	3,126	36	16.95	23.53
Mar. 7	2,757	511	237	3,072	3,353	3,150	30	16.79	24.35
June 7	2,795	532	244	3,090	3,356	3,159	41	17.00	23.56
Sept. 1	2,841	551	234	3,121	3,381	3,194	69	16.61	22.95
Dec. 5	2,900	561	246	3,224	3,510	3,295	52	16.75	23.00
1912.									
Feb. 20	2,884	571	243	3,287	3,598	3,372	40	16.48	24.32
Apr. 18	2,924	578	248	3,310	3,626	3,393	37	16.59	23.36
June 14	2,979	586	246	3,312	3,606	3,390	49	16.53	22.50
Sept. 4	3,049	589	248	3,413	3,704	3,485	82	16.40	22.91
Nov. 26	3,153	593	256	3,510	3,829	3,586	60	16.41	22.52
1913.									
Feb. 4	3,132	594	261	3,542	3,865	3,621	45	16.45	23.01
Apr. 4	3,187	602	262	3,566	3,890	3,652	46	16.42	22.40
June 4	3,202	604	266	3,542	3,845	3,610	61	16.62	21.78
Aug. 9	3,211	607	251	3,520	3,822	3,596	82	16.23	21.57

Abstract of comptroller's reports—Percentages of reserve.

	Reserve cities.								
	New York.	Chicago.	St. Louis.	Boston.		Albany.		Philadelphia.	
				Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.
1906.									
Sept. 4	24.36	24.54	24.06	24.48	28.43	23.28	27.87	22.36	26.52
Nov. 12	25.51	25.19	24.02	25.19	28.46	21.22	24.01	23.01	27.45
1907.									
Jan. 26	26.82	26.27	27.10	26.87	29.74	23.50	28.47	23.85	29.58
Mar. 22	26.30	22.57	24.00	25.22	29.31	20.22	20.23	22.44	26.61
May 20	26.93	25.03	26.53	25.20	28.38	21.88	32.91	23.51	29.55
Aug. 22	26.81	25.34	23.59	25.57	27.14	24.05	24.05	25.09	27.46
Dec. 3	21.89	24.21	20.38	22.72	25.43	18.56	18.56	21.82	24.39
1908.									
Feb. 14	29.00	27.14	28.98	26.30	29.16	23.57	25.84	25.15	28.76
May 14	30.52	26.82	28.86	26.04	33.48	23.96	32.98	27.07	33.08
July 15	28.37	26.59	25.52	26.92	36.47	23.98	32.05	26.12	31.20
Sept. 23	28.65	25.12	25.41	25.92	31.60	24.15	36.23	25.65	32.87
Nov. 27	26.02	25.94	25.71	26.77	29.40	24.26	32.46	24.44	32.05
1909.									
Feb. 5	25.58	25.99	26.52	26.69	31.28	24.03	33.76	25.68	29.76
Apr. 28	25.68	26.16	25.44	27.06	32.65	24.38	30.73	26.04	30.12
June 23	27.27	25.73	25.21	25.97	30.49	24.27	32.84	25.78	29.10
Sept. 1	25.83	24.30	24.72	25.01	29.06	25.16	31.18	25.11	27.58
Nov. 16	25.52	24.29	24.80	25.97	28.07	25.03	27.72	24.80	28.02
1910.									
Jan. 31	26.64	24.12	24.05	25.81	29.85	24.42	29.10	24.57	28.12
Mar. 29	25.76	23.35	22.36	24.30	30.38	23.31	25.59	24.23	27.67
June 30	25.27	23.96	24.99	24.95	29.69	24.02	27.40	24.34	26.31
Sept. 1	27.48	25.19	23.52	24.82	28.51	23.69	33.12	25.02	29.16
Nov. 10	25.97	24.04	24.82	26.06	27.10	24.14	27.13	24.80	26.93
1911.									
Jan. 7	26.51	24.31	24.31	26.13	29.07	24.52	28.88	24.35	27.92
Mar. 7	27.80	24.00	25.33	24.76	29.76	23.48	36.98	24.09	24.09
June 7	28.04	25.84	25.48	25.42	30.02	24.30	32.48	25.88	30.68
Sept. 1	26.59	24.65	24.51	25.49	28.77	24.23	32.73	25.05	26.53
Dec. 5	25.25	24.85	25.19	25.95	27.48	24.29	28.05	24.20	27.16
1912.									
Feb. 20	27.04	24.83	25.96	25.56	28.80	24.23	30.52	26.50	28.84
Apr. 18	26.31	24.87	24.87	25.77	28.38	23.54	28.58	25.64	28.72
June 14	26.69	25.04	24.88	25.95	29.48	23.34	30.28	24.73	26.80
Sept. 4	24.83	24.22	25.57	25.17	26.66	23.84	32.21	24.80	27.38
Nov. 26	24.69	23.24	25.09	25.27	26.59	24.20	28.78	25.29	26.97
1913.									
Feb. 4	25.89	25.10	23.94	24.79	29.87	23.25	28.38	25.21	26.84
Apr. 4	25.54	21.46	21.97	24.43	28.81	24.24	25.59	24.33	26.17
June 4	26.97	24.32	23.66	25.91	30.25	23.67	27.87	24.96	27.74
Aug. 9	26.42	22.94	22.93	26.41	31.37	23.85	29.69	25.65	26.96

Abstract of comptroller's reports—Percentages of reserve—Continued.

	Reserve cities.									
	Pittsburgh.		Baltimore.		New Orleans.		Cincinnati.		Cleveland.	
	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.
1906.										
Sept. 4	23.37	23.37	21.28	25.11	23.35	26.14	25.13	25.49	26.21	26.21
Nov. 12	22.88	22.88	22.71	25.56	25.94	27.37	25.23	26.73	20.37	20.37
1907.										
Jan. 26	25.49	26.86	25.79	28.01	25.46	30.58	25.51	27.89	26.33	26.36
Mar. 22	22.96	22.96	22.41	23.74	25.20	25.20	24.24	25.18	24.37	24.37
May 20	25.30	25.30	24.44	25.43	24.25	26.58	25.78	25.78	24.47	24.47
Aug. 22	23.76	23.76	23.24	25.34	24.81	26.35	24.93	25.37	23.45	23.45
Dec. 3	21.04	21.04	21.98	21.98	27.22	29.95	24.32	26.70	20.35	20.35
1908.										
Feb. 14	24.82	24.82	25.19	25.73	25.40	28.04	30.15	31.30	23.74	23.74
May 14	25.62	25.62	27.01	28.67	27.40	30.38	27.75	27.75	25.55	25.55
July 15	25.60	25.60	24.69	29.26	25.92	27.95	27.74	30.27	28.21	33.62
Sept. 23	26.10	28.96	25.20	28.29	26.80	27.83	26.12	26.97	26.95	32.66
Nov. 27	25.87	26.56	24.27	25.67	26.30	30.46	28.05	28.06	27.14	30.00
1909.										
Feb. 5	26.61	28.17	26.40	29.88	28.75	40.08	28.62	29.12	29.03	33.38
Apr. 28	26.95	28.75	25.41	27.85	26.08	30.89	26.25	26.25	29.02	29.40
June 23	25.88	27.62	24.43	26.83	25.50	33.48	26.35	28.18	28.18	34.39
Sept. 1	25.68	26.61	22.91	25.25	24.74	28.89	25.43	25.43	27.71	27.71
Nov. 16	25.98	25.98	23.22	25.88	27.59	29.04	26.03	26.03	23.91	23.91
1910.										
Jan. 31	25.88	25.88	24.50	25.73	26.67	28.26	26.17	27.53	24.74	24.74
Mar. 29	25.92	25.92	23.21	24.87	24.54	27.59	25.90	25.90	27.24	27.24
June 30	24.40	24.40	24.25	25.03	24.15	27.91	26.45	27.06	26.49	26.49
Sept. 1	25.66	25.94	21.21	23.43	24.39	27.34	26.69	26.69	25.87	25.87
Nov. 10	23.64	23.64	22.01	27.21	26.29	28.06	26.56	26.56	23.75	23.75
1911.										
Jan. 7	25.65	25.65	24.77	28.79	24.53	27.14	27.50	32.37	26.37	26.60
Mar. 7	25.57	27.21	22.02	24.58	25.06	28.07	24.78	30.97	27.14	29.65
June 7	25.73	26.86	22.48	23.72	25.55	27.72	27.18	28.17	26.45	32.82
Sept. 1	25.18	25.31	21.05	21.68	26.30	27.36	25.19	25.19	26.95	29.66
Dec. 5	25.99	26.37	21.24	25.09	25.01	27.36	25.77	27.82	26.57	26.57
1912.										
Feb. 20	25.80	27.96	21.72	24.87	20.95	20.95	26.14	29.92	27.79	31.51
Apr. 18	24.71	26.28	23.16	25.22	25.91	28.40	28.60	29.85	26.44	26.44
June 14	24.57	25.18	23.78	26.38	24.08	27.60	30.01	30.41	26.85	29.35
Sept. 4	24.47	27.67	21.47	25.17	23.43	24.07	25.52	27.45	27.68	29.86
Nov. 26	24.05	24.05	22.62	25.86	24.98	25.20	24.96	25.65	26.43	26.54
1913.										
Feb. 4	24.84	29.54	22.07	25.51	22.35	25.34	25.72	30.59	27.01	30.86
Apr. 4	24.02	24.87	20.90	23.24	24.44	26.79	26.87	30.05	26.09	26.14
June 4	23.98	23.98	21.53	22.57	23.78	25.20	26.17	26.86	26.83	27.35
Aug. 9	25.38	25.91	21.84	22.86	23.06	24.96	25.38	28.45	25.75	28.43

Abstract of comptroller's reports—Percentages of reserve—Continued.

	Reserve cities.									
	Indianapolis.		Detroit.		Milwaukee.		Minneapolis.		St. Paul.	
	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.
1906.										
Sept. 4	25.46	33.97	24.73	25.93	24.30	28.92	22.56	28.03	26.86	31.25
Nov. 12	26.48	30.35	23.26	25.37	24.80	28.49	22.02	22.02	24.81	28.45
1907.										
Jan. 26	26.82	33.72	27.02	27.29	24.94	28.71	22.86	28.00	25.12	29.61
Mar. 22	25.99	29.72	22.49	22.49	22.82	22.82	22.27	25.29	22.56	27.94
May 20	26.67	29.58	25.60	29.18	24.05	25.97	23.31	25.70	23.67	27.41
Aug. 22	26.78	31.81	24.81	24.81	25.24	27.78	24.33	26.49	25.24	29.63
Dec. 3	32.86	37.25	22.85	22.85	24.01	25.08	26.24	28.92	27.94	31.51
1908.										
Feb. 14	32.94	40.80	27.4	27.93	24.32	26.50	26.22	29.51	27.05	32.88
May 14	32.40	36.97	26.49	34.32	26.55	27.15	26.86	27.35	27.42	29.78
July 15	31.54	36.32	29.27	32.59	25.50	28.24	25.28	29.90	27.66	30.56
Sept. 23	30.61	33.96	27.78	31.40	25.57	30.88	25.29	34.02	24.61	32.57
Nov. 27	28.97	31.88	26.95	30.37	25.99	30.04	24.31	32.87	24.94	33.67
1909.										
Feb. 5	28.94	33.75	28.22	32.02	25.28	32.30	25.49	27.68	25.34	27.78
Apr. 28	30.23	30.85	26.05	29.65	25.63	25.63	25.80	27.10	25.17	26.56
June 23	29.39	37.59	26.69	29.63	25.82	26.76	24.41	26.11	24.31	28.18
Sept. 1	27.12	32.25	27.01	30.37	24.22	30.56	25.26	30.99	25.69	33.30
Nov. 16	26.56	29.17	25.68	26.27	24.28	24.95	25.01	29.10	24.54	27.45
1910.										
Jan. 31	26.66	29.13	22.65	22.65	24.88	27.80	23.16	24.51	24.73	28.43
Mar. 29	26.26	29.84	25.42	25.42	23.60	23.60	22.87	27.20	25.47	27.55
June 30	28.71	35.88	25.00	25.00	23.68	27.35	23.99	25.67	24.53	29.17
Sept. 1	27.19	41.62	21.73	21.73	24.26	27.14	24.53	26.65	25.12	28.57
Nov. 10	28.81	31.78	23.82	23.82	24.51	26.94	24.98	25.06	26.20	27.53
1911.										
Jan. 7	29.03	30.54	22.97	22.97	24.53	26.25	25.14	25.70	25.47	26.95
Mar. 7	27.20	32.04	24.32	28.94	23.75	26.59	24.01	28.14	25.26	36.71
June 7	27.07	32.74	26.21	30.67	25.24	27.46	24.96	25.50	25.03	25.56
Sept. 1	25.87	29.74	26.87	28.69	23.52	27.39	24.86	27.31	24.56	26.89
Dec. 5	27.08	27.19	24.72	27.73	23.75	24.92	23.54	28.66	24.61	29.11
1912.										
Feb. 20	26.85	31.27	23.08	25.74	23.57	27.38	24.21	29.07	23.38	30.23
Apr. 18	26.08	26.08	26.67	27.30	22.02	22.02	25.10	28.58	23.83	29.05
June 14	27.93	31.16	26.76	29.06	23.98	25.00	25.35	27.67	24.01	25.08
Sept. 4	26.03	29.57	25.61	25.61	23.78	27.69	24.60	25.51	24.86	25.40
Nov. 26	24.06	24.06	22.62	22.62	22.88	26.12	24.64	25.05	24.10	26.83
1913.										
Feb. 4	26.60	26.60	24.33	25.14	22.64	24.46	23.95	28.19	24.20	25.37
Apr. 4	25.38	25.38	23.90	24.84	23.68	24.41	23.87	25.31	25.46	25.46
June 4	28.53	34.14	25.55	28.83	23.68	24.64	22.27	22.27	24.96	24.96
Aug 9	26.63	33.21	24.99	29.39	24.30	24.40	25.05	27.27	26.59	26.59

Abstract of comptroller's reports—Percentages of reserve—Continued.

	Reserve cities.							
	Kansas City.		Omaha.		Denver.		San Francisco.	
	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.
1906.								
Sept. 4	22.78	32.35	24.63	28.68	27.39	40.42	29.67	30.05
Nov. 12	23.47	25.84	26.30	26.53	24.83	35.74	26.92	26.92
1907.								
Jan. 26	24.14	35.01	25.61	29.21	28.47	38.27	28.86	28.86
Mar. 22	22.65	33.58	24.86	25.48	28.40	37.95	25.81	25.81
May 20	23.57	32.35	26.12	27.56	27.16	38.94	27.20	27.28
Aug. 22	23.79	33.13	28.20	30.10	28.65	36.60	28.66	28.66
Dec. 3	21.93	31.86	33.60	34.33	30.90	31.38	34.16	34.16
1908.								
Feb. 14	23.52	44.48	30.10	34.98	31.94	35.20	33.27	33.27
May 14	25.22	37.85	28.50	30.76	33.77	38.83	34.36	36.39
July 15	25.09	35.15	28.47	29.10	32.23	37.02	33.68	35.37
Sept. 23	23.86	36.09	25.40	29.66	31.23	37.93	35.40	35.99
Nov. 27	23.32	30.40	26.56	30.64	29.59	37.52	32.29	35.89
1909.								
Feb. 5	24.29	38.50	25.85	30.80	30.03	39.73	31.89	35.83
Apr. 28	25.07	33.37	25.95	29.38	29.42	40.73	30.11	33.32
June 23	24.67	31.73	26.76	31.19	27.65	41.08	29.51	33.15
Sept. 1	23.32	31.78	25.70	29.61	28.24	39.80	27.69	31.10
Nov. 16	23.53	27.24	24.47	24.47	26.64	38.70	29.37	29.37
1910.								
Jan. 31	23.85	30.71	25.28	26.25	27.60	33.70	26.92	27.73
Mar. 29	23.38	31.51	25.23	25.23	26.54	37.17	29.46	29.51
June 30	24.71	28.46	25.50	25.50	29.56	33.54	27.28	27.64
Sept. 1	22.70	29.40	25.62	29.84	29.27	33.18	26.44	28.17
Nov. 10	23.74	30.86	26.06	26.06	28.24	33.43	26.74	26.74
1911.								
Jan. 7	23.91	32.83	24.33	24.33	30.31	31.88	29.04	29.04
Mar. 7	23.29	36.33	25.24	29.92	31.10	34.15	27.25	27.65
June 7	24.11	31.34	25.19	28.69	29.83	32.32	26.25	27.37
Sept. 1	22.94	30.29	24.94	28.63	33.74	38.05	26.32	27.86
Dec. 5	23.35	28.64	24.92	27.09	33.05	37.79	25.61	25.67
1912.								
Feb. 20	23.11	32.00	25.08	30.34	30.82	35.20	26.12	29.80
Apr. 18	23.04	32.72	24.55	26.74	30.10	36.67	26.02	28.77
June 14	23.48	28.01	23.74	32.56	29.72	35.39	25.92	27.71
Sept. 4	22.09	29.28	24.67	26.93	28.45	31.46	25.75	26.92
Nov. 26	22.64	27.64	24.21	24.21	27.57	30.13	23.87	23.87
1913.								
Feb. 4	22.80	30.08	24.62	26.77	28.72	30.47	26.70	26.87
Apr. 4	23.62	29.57	27.85	28.11	29.28	29.28	25.40	25.83
June 4	23.71	26.63	25.60	26.81	28.50	28.50	24.60	24.60
Aug. 9	23.49	27.98	25.92	29.93	29.95	30.31	26.14	27.30

Abstract of comptroller's reports—Percentages of reserve—Continued.

	Country banks.											
	New England.		Eastern.		Southern.		Middle.		Western.		Pacific.	
	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.	Legal reserve.	Actual reserve.
1906.												
Sept. 4	16.53	25.10	16.26	21.43	17.67	23.30	16.43	26.22	16.85	32.70	17.81	31.57
Nov. 12	16.55	24.00	16.06	21.22	18.16	26.82	16.60	24.31	16.78	31.13	17.47	31.10
1907.												
Jan. 26	16.27	23.13	16.04	20.85	17.31	28.54	16.40	25.52	16.93	31.37	18.06	30.55
Mar. 22	16.71	21.62	16.22	20.08	17.60	27.11	16.43	24.63	16.61	32.39	17.77	30.15
May 20	16.77	24.13	16.12	20.58	17.39	24.25	16.43	24.33	16.73	31.57	17.50	28.30
Aug. 22	17.19	23.46	16.61	21.14	17.69	23.23	16.44	24.79	16.81	31.09	17.72	28.27
Dec. 3	18.22	26.45	17.78	20.96	21.10	26.45	18.65	24.15	20.76	32.11	22.28	29.70
1908.												
Feb. 14	17.36	25.17	17.09	22.30	21.01	28.16	18.23	27.10	20.77	34.83	23.39	31.76
May 14	17.37	25.54	17.16	22.39	20.13	25.80	18.11	25.66	19.77	33.87	21.57	31.87
July 15	17.24	25.99	16.92	22.39	19.16	24.77	17.68	25.88	19.00	31.29	20.88	30.64
Sept. 23	17.15	25.06	16.92	23.38	19.04	24.73	17.40	26.33	18.16	34.72	19.87	31.57
Nov. 27	16.99	24.53	16.84	22.79	18.62	27.44	17.51	25.29	18.20	33.94	19.54	31.29
1909.												
Feb. 5	16.79	25.12	16.73	23.09	18.26	29.10	17.52	26.09	17.96	32.68	20.16	31.14
Apr. 28	17.19	25.15	17.02	23.18	18.51	27.40	17.48	24.48	17.89	32.49	19.23	32.67
June 23	16.92	24.51	16.87	22.19	18.31	25.46	17.17	24.97	17.50	30.43	18.46	31.20
Sept. 1	16.84	24.40	16.66	21.99	17.91	23.15	16.89	25.13	17.33	29.86	17.88	29.99
Nov. 16	16.79	23.57	16.43	20.96	17.87	25.01	16.82	23.16	17.26	29.73	17.93	29.94
1910.												
Jan. 31	16.55	22.77	16.41	20.58	17.66	24.21	16.80	24.66	17.25	29.43	18.63	28.89
Mar. 29	16.67	23.29	16.72	21.20	17.57	23.05	16.67	23.65	17.00	29.97	18.10	29.72
June 30	16.73	22.03	16.69	20.14	17.67	21.82	16.94	22.97	17.35	26.86	17.93	28.13
Sept. 1	16.77	22.46	16.48	20.49	17.53	20.97	16.69	23.69	17.18	27.79	17.62	27.07
Nov. 10	16.63	23.85	16.49	20.93	17.61	24.32	16.97	21.91	17.34	28.04	17.72	27.85
1911.												
Jan. 7	16.25	25.65	16.31	20.99	17.67	25.55	16.93	22.29	17.55	27.22	18.21	26.57
Mar. 7	16.58	24.34	16.36	21.92	17.45	25.92	16.49	23.72	17.08	29.06	18.31	27.55
June 7	16.66	23.80	16.58	21.40	17.63	23.37	16.85	23.47	17.50	28.33	17.82	27.53
Sept. 1	16.20	22.79	16.13	20.50	17.30	21.28	16.47	23.84	17.15	28.86	17.62	26.83
Dec. 5	16.79	23.31	16.33	20.27	17.04	22.71	16.62	22.43	17.11	29.38	17.72	29.14
1912.												
Feb. 20	16.50	23.41	16.15	21.37	16.75	25.00	16.19	24.77	16.82	29.48	17.88	28.49
Apr. 18	16.28	22.38	16.25	20.54	17.14	23.74	16.37	23.12	17.02	29.10	17.50	29.83
June 14	16.21	22.05	16.08	19.80	16.95	21.92	16.42	23.19	17.08	27.52	17.60	27.15
Sept. 4	16.39	22.91	16.03	20.55	16.74	21.88	16.23	23.15	16.82	28.89	17.25	26.97
Nov. 26	16.46	21.73	16.03	19.60	16.56	23.91	16.26	21.37	16.75	29.40	17.55	27.75
1913.												
Feb. 4	16.39	23.22	16.08	20.30	16.51	23.11	16.37	22.68	16.83	28.99	17.73	27.38
Apr. 4	16.32	21.82	15.97	19.68	16.70	22.67	16.32	22.07	16.81	28.95	17.61	26.74
June 4	16.78	21.92	16.23	19.58	16.91	21.52	16.47	21.64	16.85	27.24	17.63	25.06
Aug. 9	16.07	22.22	15.72	19.25	16.69	19.71	16.09	22.17	16.66	27.84	17.55	24.13

STATEMENT OF F. A. DRURY, OF WORCESTER, MASS., PRESIDENT OF THE MERCHANTS NATIONAL BANK.

Mr. DRURY. I wish to state some of the objections of the so-called country banks. We come under that class, and I have talked with many of them in Massachusetts and New England. I know how they feel in regard to this. I do not think there is any feeling of opposition to the bill except in a few points. We believe that the bill as a whole is pretty good, but there are certain features which seem objectionable to us which would put us in a position where we really would not know how to act if it passed in its present form.

The small country banks are talking this way in their directors' meetings constantly, and it is a question in Massachusetts, where they have a good trust-company law, whether it would not be better for some of them to change over and be trust companies. We hope that this bill will be so amended that not only the country national banks of New England but also these trust companies will come in under its provisions.

At the present time, to touch a little on the trust-company situation, the president of the Old Colony Trust Co. of Boston, which is a $70,000,000 institution, said that there was nothing attractive whatever about the bill to induce them to change and come in under its provision. Our trust-company law allows trust companies to enter into direct competition with the national banks, and it allows them to act as executors of wills, administrators of estates, trustees, transfer agents, and various things, from which they derive quite a profit.

Senator NELSON. They loan on real estate I suppose and they make farm mortgages?

Mr. DRURY. Yes, sir; farm mortgages to a certain extent. In our city of Worcester the largest institution there is a trust company. There are three national banks and one trust company. The trust company's deposits are pretty nearly as large as the deposits of any two of the national banks put together.

The business man does not put his account in a national bank because it is a national bank. He feels that the trust company is exactly as safe to deposit his money, and it is simply an open competition between the trust companies and the national bank. If this bill should go through in its present form, the country banker, the small banker, looks at it in this way: He is asked to give up 20 per cent of his capital, turn it over to a board of directors, which they call a political control board, and they are to have practically no say. They will have, to be sure, in Class C, three directors, but their control of the reserve board is such, on your reserve bank board, that by naming the chairman, who is the Federal reserve agent, and naming three of these directors, and their power of removing class C directors, it really looks as though they have not much to say about it. They are turning their money over to other people to manage.

They believe that that should be managed by bankers, and good bankers, and that the people who manage the institution should not be people appointed for political reasons.

Senator POMERENE. What reason have you for making the statement that they would be appointed for political reasons?

Mr. DRURY. Well, they would all be appointed by the party in power—the President of the party in power.

Senator POMERENE. Do you know of any President we have ever had in the last generation that you could believe would appoint a man in a responsible position of that kind for party reasons?

Mr. DRURY. I will answer that in this way: In our district we have a bank examiner appointed by a Democratic President. Later on we had a bank examiner appointed by a Republican President. The first bank examiner appointed by the Democratic Party was a blacksmith and he was entirely incompetent. The one appointed by the Republican Party was a poor—he was a man between 70 and 80 years of age and he was entirely unfit for the position. He was a brother of a very prominent man here in Washington, and the way

we get this story it was a toss-up whether he should be appointed national-bank examiner or not. They wanted to get something which would yield $5,000 per year. It was a question, as I say, whether he was to be appointed a bank examiner or to some Indian reservation, or something of that kind. They appointed him national-bank examiner. That man went into small national banks within 6 miles of us. He examined half a dozen banks. The total loans of one of the banks was $125,000. He could not prove it. He added them and added them up, and finally he had to call in the cashier and ask him to help him out. The cashier added them up and found his mistakes, and then the bank examiner said "Are they all good?"

Such things as that are the reasons for my statement.

Senator POMERENE. Well, assuming that to be so, you do not wish to state you believe, because some President may have been misled by the recommendation of some politician as to the propriety of appointing some man as a bank examiner, that therefore they would select these men who are to have control of these banks purely for political reasons?

Mr. DRURY. Perhaps not that; but what I am stating is what we believe. We think they should be practical bankers and not lawyers or railroad men, or men who are not familiar with banking.

Senator POMERENE. I believe with you they ought to be the biggest men that can be obtained, but I do not agree with you in reflecting upon the character of the Presidents in taking the position that they would appoint incompetent men for these places.

Senator BRISTOW. Well, the bank examiners being appointed now are of the prevailing political faith. Some are competent and others may not be competent.

Senator POMERENE. Possibly that is so.

Senator BRISTOW. And what has been done in the past is likely to be done in the future.

Senator NELSON. We have a case right here now of a blacksmith who was appointed a bank examiner; also, the case of the old gentleman who was appointed. That may have been all right. Probably he needed an old-age pension.

Senator POMERENE. That may be so, too; but I am a little bit surprised that anyone, in view of some of the criticisms that have been made here, should believe that the President should have the right to name a member of the Supreme Court or a member of the Interstate Commerce Commission. We have to place faith somewhere, and, as far as I am concerned, on that proposition I am willing to trust any President we have now or ever have had.

Senator WEEKS. It is true that no President has ever appointed a judge of the Supreme Court who was not a lawyer; it is also true that all the traditions that surround the Supreme Court have been such, and they have come down from the beginning of the Government, that it would be practically impossible for a President not to select from the very best material. But that is not true of any other association or any other organization, and there is not another instance——

Senator POMERENE. It is true of the Interstate Commerce Commission.

Senator WEEKS. Well, it is possibly true to some extent, but still men who are practical railroad men are not the only ones appointed on the Interstate Commerce Commission, and that is advisedly so.

Senator POMERENE. Do not misunderstand me; I do not mean to take the position that the men who are appointed to these places ought not to have had experience along the lines required; but I do mean to say that there is not any reason at all why they must necessarily be bankers.

Senator WEEKS. No; I do not think there is. Let me inject this remark, however: What the witness is saying is what he has heard the country bankers say and that is merely an expression of their views as I understand it.

Mr. DRURY. Yes, sir; that is true.

Senator WEEKS. And he is really giving us what is in the minds of the country bankers of New England.

Senator HITCHCOCK. We certainly ought to get that in the record.

Senator POMERENE. Oh, why, surely.

The CHAIRMAN. The committee will now take a recess until 2.30 o'clock p. m.

(Thereupon at 1 o'clock p. m. the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Mr. Drury, we will hear you now.

STATEMENT OF MR. F. A. DRURY—Resumed.

Mr. DRURY. I wish to speak to you about this compulsory subscription to stock. In the first place, the rate which the bank receives is only 5 per cent. Our loans at the present time average about 5.85 per cent. Since I have been connected with the bank, in the last eight years, it has never been as low as 5 per cent. The least it has been is about 5¼ per cent. We think that rate should be 6 per cent instead of 5.

We rather favor the recommendation of the conference at Chicago, that instead of it being 20 per cent that would be required of the bank, 20 per cent of the capital, it should be 10 per cent.

The CHAIRMAN. Ten per cent and 5 paid in?

Mr. DRURY. Ten per cent all told.

The CHAIRMAN. The total liability?

Mr. DRURY. Yes.

The CHAIRMAN. What would you think of using the capital and surplus as the basis and making it a smaller percentage—applying it to the capital and surplus?

Mr. DRURY. I think that perhaps would be more fair.

The CHAIRMAN. Do not let me interrupt you further.

Mr. DRURY. I think it would be more fair, because many banks have capital really in the surplus account.

Senator HOLLIS. But would not that make a fluctuation to everything? Would it ever be constant?

Mr. DRURY. Of course it would change from year to year.

Senator HOLLIS. They would have to change around more and more?

Mr. DRURY. Yes. Now, in the matter of retiring the present Government bonds, that is a very serious matter to the country bank. Some of them are little small banks with $100,000 capital and they have as high as 100,000 2 per cent bonds. They have seen the bonds go to 96, and most of them paid a premium, some of them as high as 110 or 112, and many of the banks have a very small profit and loss or undivided profit account, and it is putting them in a very bad condition. They are afraid the price will decline further unless something is put into this bill that will protect the bonds in such a way that they will sell at par. If something can be done——

The CHAIRMAN. What would you think of the Government taking off the market at par those bonds that might be offered?

Mr. DRURY. Yes.

The CHAIRMAN. Would you provide for the Government buying the two's at par that might be offered?

Mr. DRURY. Yes, I would. Now, in your bill where the provision is for replacing those 2 per cent bonds by 3 per cent bonds, it says that they shall be payable 20 years after date of issue, which does not fix any due date at all of the bonds. They can pay them at any time after 20 years, or may never pay them. We think they should be payable in 20 years from date of issue, making the due date exactly 20 years. We believe that ought to be changed.

There was a fifth member of this committee who was to come down, but was taken ill as he was on the way to the train, and I received this letter this morning from him right in regard to that point, and I would like to read that part of his letter which relates to this provision of the bill.

The CHAIRMAN. Read it into the record.

Mr. DRURY. He says:

> I hope our committee will be able to impress upon the authorities the very serious menace to the country banks of a drop in the value of the 2 per cent bonds. It is a most injurious matter for the banks with small undivided profit accounts, and I don't see what they can do to save themselves, unless these bonds are somehow or other maintained at par, or exchangeable for some bond which will command par in the market. Certainly the faith of the United States Government was pledged that these bonds should always be worth par, when the banks were prevailed on to take them, and it would be a serious breach of morals for the Government to allow these banks to suffer when they, the banks, had provided a way for the Government to obtain money at so low a figure. I believe this to be the most serious feature of the bill as regards the small banks.

That is from the president of the Merchants National Bank of Salem.

That is all I have to say.

The CHAIRMAN. Mr. Bowman, we will hear you now. Will you give your address to the stenographer and your banking connections?

STATEMENT OF HENRY H. BOWMAN, PRESIDENT OF THE SPRINGFIELD NATIONAL BANK, OF SPRINGFIELD, MASS.

Mr. BOWMAN. Yes, Mr. Chairman. I am president of the Springfield National Bank, of Springfield, Mass.

Mr. Chairman and gentlemen, what I have to say in this matter will be very brief. To me is accorded the task of suggesting to you gentlemen the establishment of a single reserve bank instead of 12

regional banks. I have been told that that suggestion will not meet with favor, but I believe that the banks of New England and particularly the country banks, of which we are one, believe such an arrangement would be simpler, less cumbersome, more effective, and would prevent the competition in times of stress which would naturally spring up among the 12 regional banks in reference to their reserve. The bill seems to recognize the desirability of a central control in the establishment of the reserve board, which is the supreme power. Why not have one central bank in which the reserves of all the banks can be kept, and avoid the possible complications of competition, which is almost sure to arise; because it is the experience I think of bankers everywhere that when things look uncertain, or when there are times of stress, each of us, all of us, seeks to strengthen our own position with more thought with regard to what concerns us and our customers than anyone else; and I should fear, we fear in New England, that that may be the result of this number of regional banks.

And if it were not possible, in the wisdom of the committee, or not desirable, to have one, then we should like to have the number reduced as low as possible. But personally, and speaking, I believe, for the large number of banks in New England, we are in favor of one central bank, with such branches as may be necessary for the proper execution of business. I want to leave that suggestion with you.

I have one other. On page 29, section 17, with reference to the Federal reserve notes, it is the opinion, I think, almost without exception of New England bankers and of all the bankers with whom I have had conversation—a large number—that these notes should not be issued by the Government but should be issued by the banks under proper Government restriction and regulation, and that when they are redeemed, as they should be, they should be redeemed in gold and not "in gold or other lawful money." These notes, whether they be the notes at present in circulation, the Treasury notes, or whether they be the notes of banks which will be issued, or issued by the Government under this bill, if it carries, are not money. They are promises to pay. There is no money except such as is recognized by nations of the earth, the first-class nations of the earth, of whom we are one of the chief, and it seems to us that these bills should be redeemed, when they are redeemed, in the only coin that is current in the commercial centers of the world—gold, and gold alone. I would have a sufficient amount of gold on reserve in the banks that issue these notes that they may be at all times redeemed. When we have a foreign balance to settle we settle it not in other lawful money or anything but gold or its equivalent, and it seems to me we ought to treat ourselves as fairly as we treat our foreign friends and that we should have that matter settled beyond any peradventure in the bill. It should be beyond any question that the United States stands upon a gold basis and upon a gold basis alone.

Those two points, Mr. Chairman, after all the others who have been before me, were the only ones I was particularly requested to speak upon, and I have done so.

The CHAIRMAN. Senator Nelson, have you any questions to ask?

Senator NELSON. No.

The CHAIRMAN. Senator Hollis?

Senator HOLLIS. I think it ought to be stated, so that it will appear after your question, why we should not have one central reserve bank. The reason is that the people of the country, as a whole, are afraid of one great central institution, bearing in mind what happened at the time of Jackson and the bank. That is the short answer, and that is probably the correct one to your objections.

Mr. BOWMAN. Of course conditions, Senator, have changed a great deal since that time—commercial conditions. I doubt whether at the present time one reserve bank of adequate size, under proper Government regulation, would not meet every requirement of banks of the country and be entirely satisfactory in its operation.

Senator WEEKS. You would not be in favor of a reserve bank framed exactly as were either the first or second United States banks, would you?

Mr. BOWMAN. No. I am in favor of one bank under such general powers as these regional reserve banks have, but 1 instead of 12, concentrating and mobilizing the reserves of the country.

Senator WEEKS. Do you know of any sentiment anywhere against Government control and supervision?

Mr. BOWMAN. No.

Senator WEEKS. Of the reserve bank or banks?

Mr. BOWMAN. No, Senator; none.

Senator WEEKS. Or against the Government control and supervision of the issuing of circulation?

Mr. BOWMAN. No.

Senator WEEKS. Whether the circulation is issued by the Government itself or by the banks?

Mr. BOWMAN. I know of no such opposition. I think it is the universal sentiment, Senator, that there should be the fullest Government control and supervision. But I believe the notes should not be issued by the Government itself, but by the banks. I think the history of nearly all the nations teaches us that that is the line of issue which has been most satisfactory the world over.

Senator WEEKS. And responds most readily to business conditions?

Mr. BOWMAN. Absolutely so; yes.

Senator WEEKS. And necessities?

Mr. BOWMAN. Yes.

Senator WEEKS. That is all.

The CHAIRMAN. Senator Bristow?

Senator BRISTOW. You are in favor of one central bank and suggest that it is generally conceded that public opinion does not take favorably to that view, and for the reason, doubtless, as stated by Senator Hollis, that the people are afraid that the power of one central concern would be used in the interests of those who control it more than in the public interest. For one, I think there is very grave cause for such a provision. What would you think of a central bank controlled by the Government? Under this system now there are 12 regional banks with a one-third representation on the boards by the Government—that is, they are political appointments—and then there is the central board which is all governmental in its character, and it has very great power over these 12. Now, if a single central reserve bank is more desirable than 12, how would it

be to have a single central bank controlled by the Government, or by a board similar to this one that is to control all of these? In that way the reserves could be mobilized into one reservoir, as has been suggested by a number that have appeared before us. What would you think of such a plan as that?

Mr. BOWMAN. Well, Senator, I should be in favor of the single bank as against the 12, as I stated. I think that bank should be under Government regulation, but I do think that the banks that furnish the capital for such a bank as they would for these regional reserves, should have a large voice so far as the boards of directors and general conduct of the business is concerned. We are now, as national banks, under the direct supervision and control, in a large sense, of the Federal Government; but we select our own directors, our stockholders select to manage their business the directors they wish to have. And while it would be proper, perhaps, that in such a bank the Government should have direct representation, yet I think the management of the business under governmental supervision and control, used in that sense, should select their own people, who are stockholders, to manage their business.

Senator BRISTOW. I understand that is your view. That is the central bank, of course. But, in my opinion, there is not any possibility of a central bank being organized by this Congress, such as you suggest. There is a probability of 12 regional banks being organized, controlled by a board of directors, part of whom are elected by the bank and part of whom are appointed by the President. And these 12 regional banks, with the central political control, are placed under the supervision of a board that is wholly political and in the selection of which the banks have no voice. Now, the criticism of the 12 is that it does not mobilize the reserves sufficiently. They are scattered too much, and there is the danger of competition, as has been suggested, between these regions for the money. Now, the Government proposes to control the rate of discount; would it not be better for the Government to establish a central bank and to make it voluntary as to who should subscribe to the stock of it?

Mr. BOWMAN. You mean individuals?

Senator BRISTOW. Individuals or banks, and let it be a bankers' bank and a bankers' bank only.

Mr. BOWMAN. Without any Government supervision, you mean?

Senator BRISTOW. Oh, let the Government run it entirely.

Senator HOLLIS. You mean without any private capital at all?

Senator BRISTOW. Oh, yes; let it all be private capital; let anybody subscribe that wants to, but let the Government run it. The Government is going to have a board of 7; it is going to run these 12 from Washington. The details of management, of course, are left with the local boards on which the Government has a representation of one-third, but the removal of two-thirds of them is subject to the President, anyway; he can remove any of them other than the three. So that this Federal reserve board here has a very great power——

Mr. BOWMAN (interposing). Very.

Senator BRISTOW (continuing). Over the property and the capital of men who are compelled to subscribe to it if they continue as national banks. Now, instead of that kind of a complicated organization, that is, half and half or part and part, how would it do to establish a central bank, as you suggest, except that it is a Government

bank and managed by the Government and performs the functions that the central bank would so far as the banks are concerned, and deals only with banks?

Mr. BOWMAN. Do you mean, Senator, that that central bank would also issue this circulation?

Senator BRISTOW. Issue the circulation.

Mr. BOWMAN. I should object to that. I do not believe it is the province of the Government to issue circulation.

Senator BRISTOW. But the Government is going to do it anyway. There are a great many men who have your view of that. That is my judgment. A majority of the people of the United States are in favor of a Government currency, and the currency that will be issued will be Government notes. I think you can assume that.

Mr. BOWMAN. I should like to get on record my contention you are wrong in that.

Senator BRISTOW. You would? Time will demonstrate whether these notes will be issued by the bank or by the Government only. But if I understand the sentiment of Congress, and we are to legislate in a few months anyway on this subject, those notes will not be bank notes but Government notes, and banks will get them from the Government and give collateral for them.

Senator WEEKS. If I may suggest, I think the witness, Mr. Bowman, meant Congress would be wrong in authorizing the Government to issue them.

Mr. BOWMAN. That is what I meant.

Senator BRISTOW. Oh, that is your opinion. I recommend that, and am very glad to have you state that, because I know that Senator Weeks here and a great many very able financiers throughout the country think that is entirely wrong.

Mr. BOWMAN. I am sorry my statement was misunderstood. What I meant was quite exactly what Senator Weeks suggests.

Senator BRISTOW. I understood you to say Congress would not provide them?

Mr. BOWMAN. Oh, no; I would not undertake to have an opinion on that subject.

Senator BRISTOW. That was what I understood. So I realize, now——

Mr. BOWMAN (interposing). I am very glad to have that set right.

Senator BRISTOW. Yes. Now, considering the fact that your views as to what ought to be done as to the issuing of this currency will probably not be the views of the majority of Congress as between 12 regional banks managed as they will be, three directors selected by the Government, six of them removable at the will of the President, and these, all of them, under the supervision of a board that is wholly political and upon which the bankers have no representation whatever, what I am trying to find out is whether or not you believe it would be better to carry out the central-bank idea, so far as one central bank is concerned, and have it managed by a Government board rather than have 12 managed by a Government board such as the bill provides?

Mr. BOWMAN. I am inclined to think, Senator, that if it came to that, if there was to be a central bank which would be wholly a Government bank, absolutely controlled, in which none of the stockholders would have a word to say, and that bank was to issue the

currency also—in fact, be the whole thing—without reference to anybody else, I would rather have the arrangement as it is suggested in this bill, because we do have something to say.

Senator BRISTOW. But there is this difference: I would like to have you consider in the suggestion I make the stockholders in the Government bank would be voluntary. They could subscribe or not as they saw fit.

Mr. BOWMAN. Yes.

Senator BRISTOW. Under the present system it is not voluntary. They will have to subscribe if they remain as a national bank. Would that fact have any weight in the matter, in your judgment?

Mr. BOWMAN. Well, the witness who preceded me said that that was the feeling in a good many of the banks, and I think that is true, that the banks ought not to be compelled to subscribe, but ought to be permitted to.

Senator BRISTOW. Yes.

Mr. BOWMAN. I think that the bill should be made so attractive that they would desire to. You come to a country bank, take a small country bank, and let it be put up to the management that they must subscribe, whether or not, if they remain in the system, put up 20 per cent ultimately, or be liable to 20 per cent of their capital, over which they have practically no control, and on which under this bill they are not to receive as much income, at the maximum, as their money is worth in their own business, and they naturally feel more or less averse to becoming a part of such a plan.

So that, if the bill, after careful consideration on the part of this committee, could be so amended as to make that more attractive to these people, so that they would like to subscribe, rather than feel they were compelled to—if that were possible, I think it would be a desirable thing to do.

Senator BRISTOW. Now, if this board of directors of seven, which the President has to appoint, should be appointed as the directors instead of a Federal board or Federal bank, and subscriptions were invited to that bank, and bankers were given the first choice of taking stock, and if they took it, well and good, and if they did not, let citizens come in and subscribe, and then make it a depository of United States funds; limit the earnings on the capital subscribed to a reasonable amount, 5 or 6 per cent; and say that any bank in the United States could rediscount certain kinds of paper there, just as properly as the Federal reserve banks that we are contemplating here in 48 cities, where we have these reserve associations, or more if it is necessary, and let the Federal Government manage, in fact and assume the responsibility instead of coercing the banks to subscribe. Then assuming the responsibility, let it, if it sees fit, limit the amount of earnings that the reserve banks shall make, or of directing one reserve bank to send its money to another section of the country, if in the judgment of the Federal board it needs it worse than the region where that bank may be located; can you not see, getting away from any prejudice you may have against the Government getting into the banking business—it is in it anyway—can you not see that, if properly managed, they might be as useful as any central bank might be under the control of private bankers, and that you would relieve them from the prejudice which the public has

against the private control of a concentrated system such as a central bank under bankers' control would be?

Mr. BOWMAN. I do not think it would meet with general favor.

Senator BRISTOW. You do not think it would?

Mr. BOWMAN. I do not believe it would.

Senator BRISTOW. A good deal has been said here about politics controlling the banks. Objection has been made by the gentleman who preceded you, who seriously objected to banks being controlled by political appointees and who cited some instances as evidence that they might be incompetent; that is, that the political emergencies which confront an administration might induce it to consider more its political welfare than the welfare of the investors in these banks. Is there not another side to this?

I was talking to a Senator at noon, and he remarked that he was not so much afraid of the politicians managing the banks, as the banks managing the politicians; that he thought we were putting the 25,000 banks into politics, and they would run the politics of the country instead of the politicians running them. What do you think of that? Do you think there is any danger of that kind of a condition?

Mr. BOWMAN. Of the banks running politics?

Senator BRISTOW. Yes. You think this bill would not put the banks into politics?

Mr. BOWMAN. No; I do not, sir. I do not think politics ought to have anything to do with it.

Senator BRISTOW. It is not the question of what ought to be. You have expressed that with a good deal of clearness, and other witnesses have expressed the same thing—that politics ought not to have anything to do with the management of these banks. But it is declared that this is to be a political board—in fact, a political management, because six of the nine directors of the banks are subject to political removal.

Now, a gentleman said to me the other day, and I think he stated it to the committee, that when this law was passed, as a matter of self-defense, the banks would have to go into politics.

Mr. BOWMAN. I do not think he was right.

Senator BRISTOW. You think he was not right?

Mr. BOWMAN. I think not; I have not any idea that he was.

Senator BRISTOW. That is all.

Senator HITCHCOCK. Mr. Bowman, your argument in favor of 1 bank as against 12 appears to be based upon the impression that the 12 would compete with each other for reserves very much as the reserve banks now compete with each other and would continue the practice which is now in existence. Is that correct? Have I understood you correctly to say that that is your real reason against 12 banks?

Mr. BOWMAN. That is what is feared on the part of a good many bankers; yes.

Senator HITCHCOCK. Have you formed any opinion as to the degree of this competition? Would it be such as in times of stress to be very serious?

Mr. BOWMAN. I do not suppose anybody can tell just how it would work out, but there are in this country to-day a good many

thousand banks. I have had more or less experience in that line, and I know when the occasion seems to demand it we all seek to strengthen our own individual positions in reference to what we fear may be coming, whether our fears are well grounded or not. It has seemed to me, and it has seemed to others, that the same principle would apply in reference to the regional banks, and that they would be, perhaps, in severe competition with each other for the purpose of strengthening their own reserves.

Senator HITCHCOCK. So that to that extent the benefits of mobilization would be lost?

Mr. BOWMAN. I should think so.

Senator HITCHCOCK. Now, you have expressed, as most bankers have, the opinion that the currency issue should consist of bank notes and not United States notes, and taking Senator Bristow's assumption as correct, that there is very little probability of Congress resorting to an issue of bank notes, what would be your opinion as to the reserves which the United States should keep on hand for the redemption of those notes?

Mr. BOWMAN. I think the reserves ought to be very strong, Senator; not less than 50 per cent.

Senator NELSON. In gold?

Mr. BOWMAN. Not "in other lawful money," but in gold.

Senator HITCHCOCK. Not less than 50 per cent. Is it your opinion that the reserves should be in the regional banks or in the Treasury?

Mr. BOWMAN. A fair proportion should be in the regional banks, if, as intended in the bill, they are to be accepted for the purpose of redeeming these notes. They must have the money with which to redeem them.

Senator HITCHCOCK. The experience of the national banks is that the national-bank notes are redeemed at the Treasury and not at the counter of the issuing bank?

Mr. BOWMAN. Yes.

Senator HITCHCOCK. Do you think that would be true to the same extent with these reserve notes?

Mr. BOWMAN. Under the provisions of the bill, it says that they shall be redeemed either at the Treasury or at any one of these regional banks, and I should imagine there would be a good many bills presented at the regional banks for redemption.

Senator HITCHCOCK. That is true of the national-bank notes, that they may be redeemed at the national banks?

Mr. BOWMAN. Yes; they may be.

Senator HITCHCOCK. The fact is that last year 87 per cent of national-bank notes were redeemed at the Treasury; that is, over $600,000,000 worth of national-bank notes were redeemed at the Treasury.

Mr. BOWMAN. I have no doubt that the larger portion of them would go to the Treasury.

Senator HITCHCOCK. In view of that fact, what would be your opinion as to where the gold reserves should be placed for redemption?

Mr. BOWMAN. I think it ought to be kept in both places.

Senator HITCHCOCK. You expressed your approval of the idea of a banking system under Government control. Will you define what you mean by "Government"?

Mr. BOWMAN. I mean the Federal Government.

Senator HITCHCOCK. How would you define the Federal Government?

Mr. BOWMAN. Well, I do not know that I exactly follow you.

Senator HITCHCOCK. When you said, "Government control," did you mean presidential control?

Mr. BOWMAN. No.

Senator HITCHCOCK. You understand that this board is entirely under presidential control?

Mr. BOWMAN. Yes, sir; as contemplated here?

Senator HITCHCOCK. Yes.

Mr. BOWMAN. Yes.

Senator HITCHCOCK. Are you in favor of a board under presidential control?

Mr. BOWMAN. I am not in favor of a board under absolute presidential control, where all the members of that board are subject to political appointment, of either party.

Senator HITCHCOCK. This bill provides a board under presidential control.

Mr. BOWMAN. Yes.

Senator HITCHCOCK. And it is always a misuse of language to call it "Government control."

Mr. BOWMAN. That is a distinction which I had not made in my mind. I would say "presidential control."

Senator HITCHCOCK. It is a very important distinction, because the Congress of the United States is a very large portion of the Federal Government.

Mr. BOWMAN. Yes; I realize that.

Senator HITCHCOCK. I think the tendency is to reduce it all the time, and to create autocratic powers in the President, but I want that distinction clearly understood—that it is presidential control and not governmental control which is proposed.

Now, I want to ask you if you can see any distinction between 12 regional banks under one control and 1 bank under one control? Is there any distinction so far as an objection to a single control is concerned? Is not the gravamen of the objection to a single bank the fact that it is a single control which the people are objecting to? Is not a single control over 12 regional banks just as obnoxious on that account as a single control of 1 bank?

Mr. BOWMAN. I do not think it is, quite, Senator.

Senator HITCHCOCK. Will you please explain the difference?

Mr. BOWMAN. I do not know that I can explain it to your satisfaction.

Senator HITCHCOCK. Just explain it your own way.

Mr. BOWMAN. Of course, there can not be 12 banks without each one of them having some initiative of their own, or else they would be unwieldy and inoperative. The very thing which I suggested at the beginning, which is the feeling of a good many bankers, that competition, each man for himself, in the regional banks would operate unfavorably, I should be afraid of. There could not be any such Federal presidency, with single control, as would absolutely eliminate that feature if there were a large number of banks in the country having similar powers; that is, I should be afraid that would be the situation.

Senator HITCHCOCK. Do you think that this Federal board, as proposed in this bill, would be regulating the system of reserve banks, or would it be running them?

Mr. BOWMAN. You mean whether the Federal board would control the banks or be running them?

Senator HITCHCOCK. Yes; whether the board would control the banks or run them.

Mr. BOWMAN. I do not know, I am sure, what they would do. There was never any board ever heard of which had such unlimited powers.

Senator HITCHCOCK. Suppose the Interstate Commerce Commission, which is supposed to regulate the railroads, had a right to appoint one-third of all the directors of the railroads, and had the right to remove another third which was chosen by the stockholders—had the right to remove officers of the railroads—would you say the Interstate Commerce Commission was regulating the railroads or running them?

Mr. BOWMAN. I should say they were running them.

Senator HITCHCOCK. Do you not think it is a fair assumption to say that this Federal board is running the banks?

Mr. BOWMAN. I should say so, in a sense.

Senator HITCHCOCK. That is what is proposed in this bill.

Mr. BOWMAN. They are, in a sense. Their powers of regulation and control seem to be very wide.

Senator HITCHCOCK. Now, then, the Federal board has the power to control the volume of currency, to a considerable extent, in addition to these other powers. Is that power to control the volume of currency and the volume of credit not the power also, as a result, to control the business of the country?

Mr. BOWMAN. Well, they can go a long way toward helping or hindering the business of the country; there is no doubt about that.

Senator HITCHCOCK. A restriction of interest at any time, a restriction of the volume of currency and credit, will inevitably result in falling prices, will it not?

Mr. BOWMAN. I think so.

Senator HITCHCOCK. It forces people to market their goods, it forces merchants to sell their merchandise, and forces men who have stocks to sell their stocks, so that in the hands of seven men would be the power to depress prices or raise prices in the country?

Mr. BOWMAN. I think so.

Senator HITCHCOCK. Do you think it is safe to lodge so much power in seven men?

Mr. BOWMAN. I do not think it is safe to give them so much power.

Senator HITCHCOCK. You think there should be some limit on the power of the Federal board?

Mr. BOWMAN. I do.

Senator HITCHCOCK. Under the terms of this bill a member bank may go to a reserve bank to discount its notes, and may be absolutely refused, and it has no appeal. Another bank, across the street from this member bank, may go to the Federal reserve bank and get the right to discount an unlimited amount of its paper. Do you think that is a safe power to give to the Federal reserve bank, the right to discount everything for one bank and to refuse another bank?

Mr. BOWMAN. Well, practically, Senator, I can not imagine that anyone who would be competent to be in charge of a Federal reserve bank would refuse to discount for a member bank, if the member bank presented paper which was proper to discount.

What you state sounds unfair, but in practical business it would not work out that way, I think. That is to say, if you were a regional reserve bank, and I came to you, being a member bank, to ask for discount, and presented paper which was proper for rediscount, you would probably take it and give me what I asked for, and if I did not have paper that was proper to be rediscounted, I should think we ought to reform our methods of doing business, make better loans, and get into our hands paper that would be acceptable. Perhaps that would have the effect of weeding out some banks that are conducting business in an improper way. I should not expect, in practical experience, that there would be unjust discrimination between one bank and another.

Senator HITCHCOCK. Can your mind go back to the time when the railroads of the country were making such a discrimination between shippers that Congress was compelled to say to the railroads, "You must treat each shipper absolutely the same;" and yet you would not have imagined that the great railroad companies would have deliberately made that gross discrimination between shippers which would ruin one company and build up a monopoly, and yet you know, as a matter of fact and of history, that the grossest discrimination did occur until Congress took steps to stop that by ordering the railroad companies to treat all shippers alike. Do you think you can treat the reserve banks with any less severity than you have treated the railroads in the matter of regulation?

Mr. BOWMAN. I think you can.

Senator HITCHCOCK. Do you not think the same protection you extended to the shipper should be extended to the bank?

Mr. BOWMAN. I do not think there is any need for it.

Senator HITCHCOCK. Then perhaps you did not think it was necessary to extend it to the shipper?

Mr. BOWMAN. Yes, I think it was.

Senator HITCHCOCK. Why could not the railroad be trusted as well as the bank?

Mr. BOWMAN. Take the history of the banks the last 50 years. It is true there has been great accumulations of capitals in various centers. I think it is equally true, Senator, that whenever there has been occasion for the use of that accumulated capital, it has been wisely distributed throughout the country without discrimination. I do not think there has been anything in the conduct of the banking business in the last 50 years which would justify comparison between it and the experience with the railroads of which you speak.

Senator HITCHCOCK. Then you think a reserve bank, performing a public function—that its directors should be left entirely free to refuse to discount the paper of a bank on one side of the street while granting to a similar bank on the other side of the street unlimited discount without any restriction at all?

Mr. BOWMAN. I think the directors should be men who could be trusted, and the officers should be those whose judgment could be relied upon to do the thing for the public interest that they would be safely justified in doing. Every banker knows he has plenty of applications for loans which he is obliged to refuse, and the very men

who are refused will go out and say hard things about the banker because he can not get what he wants.

But, as a matter of fact, no man, and not any bank of which I have any knowledge—and I have been in the business for 46 years—has ever been refused when he had reason to ask for what he wanted.

Senator HITCHCOCK. I believe you said you are in the banking business in Springfield, Mass.

Mr. BOWMAN. That is correct.

Senator HITCHCOCK. How many banks are there in that city?

Mr. BOWMAN. There are six.

Senator HITCHCOCK. And if a man comes into your bank and asks you to loan him $10,000, and you refuse him, he has five other places in your city to which he can go?

Mr. BOWMAN. Yes.

Senator HITCKCOCK. Suppose your bank goes to the reserve bank, in which you have practically everything locked up in the way of reserves that you have not got in your own vaults, and you go to your reserve bank, and it refuses you, what are you going to do? Do you not see there is a vast difference right there; that a customer, if he is not treated well in one bank, under the competitive system, can go to another bank and get what he wants, and under this system which it is proposed to create, where a bank is compelled by law to put one-tenth of its capital into the reserve bank, and keep 5 per cent of its reserve in that bank, and then is not guaranteed a single thing in case of need from that very place? Is there not a difference between the competitive system in Springfield, with the six banks you speak of, and the situation which would exist under the provisions of this bill?

Mr. BOWMAN. If it worked out it would seem to be unfair.

Senator HITCHCOCK. I am not asking you that. I am asking if there is not a radical difference between the situation you described and the situation which is going to be created in this bill?

Mr. BOWMAN. It seems to me you are suggesting an improbable situation.

Senator HITCHCOCK. Is there not a difference between the competitive system and this monopolistic system which it is proposed to build up here?

Mr. BOWMAN. Yes.

Senator HITCHCOCK. There is a radical difference?

Mr. BOWMAN. Yes.

Senator HITCHCOCK. So that the illustration is not of any value?

Mr. BOWMAN. No.

Senator HITCHCOCK. You are in exactly the same position as the shipper is on a railroad where he has no other place to go, and can not ship his goods except over that railroad, and you have conceded that the railroads must treat all shippers alike. Do you not think the same Government that said to the railroads, "You must treat all shippers alike," should also say something of the same sort to these reserve banks that are given this big power?

Mr. BOWMAN. Yes; except that the Government can not say—you would not say that the Government should say—that a regional bank should discount poor paper for a member bank, and take paper which they did not think was good, if it did not have anything else, would you?

Senator HITCHCOCK. No; I have not proposed such a case. I have proposed, in the first place, that there shall be a limit on the amount of paper which a reserve bank shall rediscount for any member.

Mr. BOWMAN. That is very well.

Senator HITCHCOCK. That is not in the bill.

Mr. BOWMAN. I suppose you can put it in the bill.

Senator HITCHCOCK. I propose in the second place that the reserve bank shall not taboo and refuse to discount paper for a bank because it does not like the way the bank is run.

Mr. BOWMAN. I quite agree with that.

Senator HITCHCOCK. And yet we have had witnesses here before this committee who have asserted that the reserve bank ought to have a disciplinary power, and if a member bank fails to come up to the standard of the board of directors of the reserve bank, it shall be refused credit when it comes.

Mr. BOWMAN. I should say that the only thing that ought to justify a refusal would be the quality of the paper presented for discount.

Senator HITCHCOCK. Then you would be in favor of some safeguard put in there so that the banks would be able to get something as a matter of right, and it should not be left wholly discretionary with the reserve bank whether paper should be discounted or not?

Mr. BOWMAN. I would.

Senator HITCHCOCK. That is all I have to ask.

Senator BRISTOW. I would like to ask a question or two along this line. You spoke of competition between the reserve banks being inevitable where there are a number of them. Now, if there was one central bank that competition, of course, would not exist, would it?

Mr. BOWMAN. I should think not.

Senator BRISTOW. So that if the management of the central bank was similar, we will say to the management of the reserve bank, then you would regard the central bank as the better of the two systems?

Mr. BOWMAN. I think I would.

Senator BRISTOW. Well, you would not favor a central bank managed by this central board; you would prefer 12 regional banks managed by the central board in addition to their present local management? If the one central bank had the same provision as to management that the regional banks have, then you would believe that the one central bank would be better?

Mr. BOWMAN. I think I would.

Senator BRISTOW. Now, you said you did not think that in 50 years the banks had ever discriminated against one concern or individual in favor of another as the railroads did. Are you really sure that the banks have not made it impossible to promote an enterprise because they were in competition with some of their business friends or depositors?

Mr. BOWMAN. I could not say, Senator, as to individual cases.

Senator BRISTOW. I will call to your attention a little personal incident, and ask you what you think about it. The vice president of a very large bank was in the little town in which I live a few years ago, and I was talking to him about financing a railroad proposition.

He was not familiar with the nature of the enterprise and I explained it to him. He grew quite enthusiastic and said, "That would be a fine thing, and when you get ready we would like to handle the paper for you, and we can do it." He went on, and in the conversation it appeared that four railroads had parceled out a certain territory in the West there and had come to an agreement that they would not extend any more branch lines into that territory; that each road should have the territory which it then controlled, and that the one would not run into the territory of the other. This branch line would have run into the territory of one of these competing roads, and of course, it would have objected to it—it always had objected to it—and the general manager of the railroad said to me at one time that they did not intend to permit that line to be built because it would interfere with their territory.

I suggested to him, "Suppose this railroad, through its officers, should object to your company financing this enterprise, and put its foot down on it with vigor. Will that influence you? These gentlemen who are going to put their money into this know what they can depend on, and they do not want to be let down and ruined by any failure." "Well," he said, "I will have to think about that a while." About a month after that I communicated with him, and he said they could not handle the securities. I learned that the vice president of this road was one of the directors of this bank.

Now, what do you think caused that vice president to change his mind as to the desirability of handling that security?

Mr. BOWMAN. Probably he did not like the security. [Laughter.]

Senator BRISTOW. That was the reason he assigned, but that was not the reason, was it?

Mr. BOWMAN. I do not know.

Senator BRISTOW. I had rather hoped I might have a more frank answer from a witness that has been as frank as you have been in all other matters. But appealing to your judgment and your knowledge of human affairs, you know that the reason he changed his mind was the influence of this railroad upon his bank, was it not?

Mr. BOWMAN. I do not know. I think I will let my answer stand, Senator.

Senator BRISTOW. Yes; I think so too. Now, do you think that situation is any different from the case of the shipper who might be shipping salt in very large quantities out of one community where the railroads charged a joint rate, on a little switching line, a very short distance, at one salt plant—which while under the control of a separate corporation, was under the same ownership—and that joint rate was very much higher than the rate from another salt plant, although the salt plants were then within three-quarters of a mile of each other and the salt was shipped to the same destination—don't you think that the reasons that caused the banker to change his mind were very similar to the reasons assigned for this increased rate; that it was because there was a joint rate and it was not a continuous rate on their line?

Mr. BOWMAN. I could not say. I do not think I would want to answer that until I knew all the circumstances.

Senator BRISTOW. I have given you all of the circumstances.

Mr. BOWMAN. When I spoke as I did, Senator and gentlemen, I meant in a broad general way. I think every man here will con-

cede that, as a whole, the banking business of the country in the last 50 years has been conducted on a pretty high plane. That is what I meant to say, and I think that is true.

Senator BRISTOW. Do you think it has been upon any higher plane than any other business of that magnitude?

Mr. BOWMAN. Well, a good deal higher plane than the railroad business, to some extent.

Senator BRISTOW. Is it not a fact that in many sections of the country the railroad influence is sufficient to determine the policies of the banks?

Mr. BOWMAN. I do not know about that.

Senator BRISTOW. In many of them.

Mr. BOWMAN. I do not know of any such cases.

Senator BRISTOW. You think that a very heavy deposit from a railroad, the officers of a railroad being officers of the bank, does not influence that bank, so far as its extension of accommodations to that railroad is concerned?

Mr. BOWMAN. No, sir.

Senator BRISTOW. You think it does not? I am very sorry you are so poorly informed in regard to the conditions that exist west of New England. I suppose that your ideas have been derived from the relationship that exists in New England.

Mr. BOWMAN. Well, in the East. That is true, largely.

Senator BRISTOW. Are you familiar with the financing of the Moffitt road out at Denver?

Mr. BOWMAN. No, sir; I am not.

Senator BRISTOW. You have not read of the experiences of Mr. Moffitt in his efforts to get money to build this road?

Mr. BOWMAN. Yes; I have read something about it.

Senator BRISTOW. Do you think that Mr. Moffitt was treated with the consideration that he would have received if the railroads with which his line was going to compete had not interfered with his efforts to finance it?

Mr. BOWMAN. I do not recall now, Senator, how he was treated. I have always supposed Mr. Moffitt was pretty well able to take care of himself.

Senator BRISTOW. He was while he lived, and he did take care of himself.

Senator HITCHCOCK. He bankrupted himself trying to build the road.

Senator BRISTOW. I should like to ask you, since I was invited here to read one of Prof. Fisher's books, to read Mr. Moffitt's statement of his experiences with the New York banks.

Mr. BOWMAN. I would much rather read that than to read Prof. Fisher's book. [Laughter.] I should feel bound to do, as far as I could, anything that this honorable committee might suggest, but I hope it will spare me that. [Laughter.]

Senator BRISTOW. That is all. I do not know that I agree with the witness.

Senator POMERENE. Let me ask you just a question or two. I believe you stated that you objected to that provision of the bill which makes these notes the obligations of the Government. Did I not so understand you?

Mr. BOWMAN. Yes; I said I did think they should be the obligations of the banks.

Senator POMERENE. Now, do you not feel, under the provisions of this bill, that the payment of these notes is pretty adequately secured, first, by the assets which are hypothecated as collateral; secondly, by the gold reserve; thirdly, by the fact that they are a lien upon all the assets of the bank; and, further, protected by the double stock liability?

Mr. BOWMAN. Do you wish me to answer now?

Senator POMERENE. Yes.

Mr. BOWMAN. I did not know that you had completed your question.

Senator POMERENE. I think I have.

Mr. BOWMAN. I have no question in my mind about the adequacy of the security. However, in the clause which says they shall be redeemed in gold or other lawful money, I would strike out "or other lawful money" and make them redeemable in gold alone. So far as the security is concerned, it seems to me to be ample.

Senator POMERENE. I understand, and that is the answer I expected you to make to the question. Now, then, conceding, as you do, the fact that these notes are amply secured, what is the serious objection to making them the primary liability of the Government?

Mr. BOWMAN. Well, it seems to me, Senator—and this is merely the expression of an opinion and is not worth much, I presume——

Senator POMERENE (interposing). It is worth considerable, otherwise I should not have asked it.

Mr. BOWMAN (continuing). That it is far better to have the Government furnish the gold to the banks with which to redeem these notes and have the banks issue them and not have the Government with a large amount of bills which it shall be, perhaps, called upon to redeem in times when it will be an embarrassment to the Government to do so.

Senator POMERENE. Now, Mr. Bowman, of course, if it were to redeem or had to redeem these notes, that would be another proposition; but you have just admitted that these notes are amply secured. The securities are passed upon by the Government before the notes themselves are issued. I can not see that there is a contingent liability if these securities should waste for some reason or other, but it seems to me that it is insignificant as compared with the additional credit which the name of the Government would add to the notes themselves, so far as the public interest is concerned.

Mr. BOWMAN. Do you mean to imply, because an obligation is secured, that therefore the means for its redemption are inconsequential?

Senator POMERENE. That depends upon the security.

Mr. BOWMAN. I should not say so. Even if a note is secured, we want it paid some time.

Senator POMERENE. Most assuredly, and under the provisions of this bill we have provided, it seems to me, against every reasonable contingency that might arise—by the reserve, by the hypothecation of the assets, by the lien upon the entire assets of the bank, and by the double stock liability.

Mr. BOWMAN. Well, if there should happen to be a very large outstanding issue at any time—I do not know that there will be; I do not suppose anybody knows until this bill, if it becomes a law, is in full operation, but I can conceive of a time when, by reason of inadequate income, and there are some who say that the operation of the tariff bill which has been passed is going to greatly reduce the Government receipts. And there is war; we may have Mexico on our hands—God forbid, but we may. And other contingencies might arise when it would be very embarrassing for the Government to have those bills presented at the Treasury for redemption, they being a direct obligation of the Government. It seems to me, Senator, that the history of nearly every nation should teach us that the most elastic and, on the whole, the most satisfactory currency for any people is a currency of the nature proposed by the——

Senator POMERENE (interposing). But we are a Nation of peace, and I do not think we should be guided by what may be the policy of a nation that is constantly preparing for war, as the European countries are. And you overlook, it seems to me, this fact, that this security, which you indicate might be dissipated, is not of such a character that it can readily be dissipated, because it is being renewed constantly every 90 days.

Now, it seems to me that all those are circumstances which overbalance the objection which is raised to making these the direct obligation of the Government. I do not concede it would be a calamity if the Government should have these notes to pay, but I do not believe there is a possibility that it would have them to pay. That is all I care to say.

Senator NELSON. Are you in a hurry to go?

Mr. BOWMAN. I want to catch the 5 o'clock train to New York. I suppose I shall have to leave at 4.30.

Senator SHAFROTH. Of course, if you are going——

Mr. BOWMAN. No, Senator, let me answer your questions.

Senator HITCHCOCK. The tariff bill will not go into effect before you get away.

Senator SHAFROTH. The way this bill provides for the regional reserve banks, you are in favor of striking out the words "lawful money" and making it read "gold" alone, as I understand you?

Mr. BOWMAN. I am.

Senator SHAFROTH. Don't you recognize that that would impose a less likelihood of the Government in times of stress maintaining the gold reserve than if it were left the way it is?

Mr. BOWMAN. I think there is gold reserve enough in this country for all purposes.

Senator SHAFROTH. Don't you think the strain on the National Treasury would be a good deal less if these notes were made just the way the bill provides they shall be?

Mr. BOWMAN. Why, it would be a good deal easier for lots of people if they could pay their debts in something which is not money. But my judgment is, and I believe it is the judgment of the bankers throughout the country—that is what you are asking for when you have us here—that the only thing to redeem your outstanding obligations in, as a Government, is gold.

Senator SHAFROTH. Ultimately that is true. There is not any question about that. The question is, In what manner can you make

the strain on the gold reserve the least and have the ultimate redemption made? Now, let me put this to you: If each regional bank is to keep a gold reserve for the redemption of these notes, it makes 12 competing centers for gold, as against the Treasury of the United States, does it not?

Mr. BOWMAN. Yes; as this bill stands.

Senator SHAFROTH. That makes a greater demand on gold, and if there is a strain on gold throughout the world it makes it that much harder to get the necessary gold. Now, then, if those notes are made payable, say, in lawful money—suppose the regional banks kept nothing but lawful money, such as greenbacks, in their vaults for the purpose of redemption, as they do now, very largely. Suppose this Government had but $100,000,000 of gold, the Government owning that as a reserve, and it had issued $100,000,000 of greenbacks, redeemable absolutely in gold as our greenbacks are at present—it reads "coin," but it has been construed to mean gold.

Now, suppose, under this Treasury note, $100,000,000 more should be issued payable in lawful money. You can readily see that if I had $1,000 of Treasury notes I could take it to a regional reserve bank and say, "I should like to have gold for this." You would say, "No, I can not give you gold, but I can give you a greenback." I say, "All right, give me the greenback." You could take that $1,000 note and chuck it in the vaults and keep it there and not reissue it. I would come to Washington or to any subtreasury throughout the United States, and I would say, "Here I have a greenback and I want gold for it." The Government says, "Yes, I am ready to give you gold, and they give me $1,000, and they put that in the bank and hold that.

You have practically redeemed $2,000, have you not, by simply giving out $1,000 in gold. And if you had $2,000 of gold notes, or if this note had been a gold note instead of a lawful-money note, you can see that there would have been a redemption of $1,000 only by the payment of $1,000 in gold.

Now, is not that an advantage to the Government to have that condition so that when there is a great strain on gold it can put the party to this trouble and can retard matters so that it will not make that endless chain?

Mr. BOWMAN. I do not think so, Senator.

Senator SHAFROTH. Well, you can not help but think that there would not be as much presented to the United States Treasury for gold redemption as if these were redeemable in gold all over the United States, can you?

Mr. BOWMAN. That is a provision of the bill.

Senator SHAFROTH. I understand

Mr. BOWMAN. I would just as soon see the provision made that these notes should be redeemed at the Treasury, but as long as the bill says they shall be redeemed at the Treasury——

Senator SHAFROTH. Yes; but it says, "or lawful money"——

Mr. BOWMAN. I object to the term "lawful money."

Senator SHAFROTH. I know; that is true, and so does everybody who wants a stronger demand for gold. But if you want to relieve the demand—which it seems to me bankers ought to be willing to do—it seems to me you would not object to it, especially when you have in this bill the provision that the parity shall be maintained.

Mr. BOWMAN. I suppose, as a matter of actual experience, the demand for gold would be comparatively small in our local transactions, but I should not like to let that bar down at all.

Senator SHAFROTH. You can readily see that if you keep the reserve in a bank, say, in Minneapolis—now, how much gold would you keep there.

Mr. BOWMAN. That I do not know. I should think that would have to be the result of some experience with the way the bill was going to work out—how much currency would be issued. I do not think I can say at this minute.

Senator SHAFROTH. These bank notes or these Treasury notes are redeemable at any one of these reserve banks?

Mr. BOWMAN. Surely.

Senator SHAFROTH. And consequently you could cluster into New York City one-half of this total circulation, and have it redeemed there, could you not?

Mr. BOWMAN. Why, yes.

Senator NELSON. I think they are only redeemable by the bank issuing them.

Senator SHAFROTH. No.

Senator NELSON. Or at the Treasury.

Senator SHAFROTH. No; at any one of these reserve banks.

Mr. BOWMAN. I think all the notes are redeemable——

Senator SHAFROTH (interposing). I want to follow this up—it would be necessary, then, for each bank to keep in gold more than 50 per cent, as you seem to think that that was the amount of reserve that ought to be required—more than was necessary to redeem only the amount of notes which had been issued by that bank, would it not?

Senator NELSON. Here is the law.

Mr. BOWMAN. I do not know that I could answer that definitely.

Senator NELSON. Here is the law.

Senator SHAFROTH. All right.

Senator NELSON (reading):

> Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be returned for redemption to the Federal reserve bank through which they were originally issued, or shall be charged off against Government deposits and returned to the Treasury of the United States, or shall be presented to the said Treasury for redemption.

Senator SHAFROTH. These notes are supposed to circulate all over the United States, are they not?

Senator NELSON. Yes.

Senator SHAFROTH. Is it possible that these notes so to be cashed can not be redeemed at any other reserve bank? I do not mean canceled; I mean presented there and gold demanded on them.

Senator NELSON. I do not think so under that language—absolutely.

Mr. BOWMAN. I should not think so under that language. I did not recall that.

Senator SHAFROTH. I thought it said——

Senator NELSON (continuing). It is by the bank issuing the same or the Treasury Department—charged off.

Senator SHAFROTH. Then you think that each bank should have in its vault 50 per cent in gold as to its outstanding circulation?

Mr. BOWMAN. I said 50 per cent. I should think so, although experience might show that it should be more or less.

Senator SHAFROTH. And now how much would you have kept in the vaults of the United States for the purpose of redeeming there, because a demand can be made there?

Mr. BOWMAN. I would have enough.

Senator SHAFROTH. Do you not think that all of these demands upon gold would have a tendency to take all the gold and make it rather hard to maintain that gold reserve?

Mr. BOWMAN. I do not think so, Senator; no.

Senator SHAFROTH. It would depend on how much money you issued, would it not, under this bill?

Mr. BOWMAN. Yes; but there is a very large amount of gold in this country. All the national banks and every other bank throughout the country has got gold in its vaults.

Senator SHAFROTH. I have not any doubt but that there is considerable gold right now.

Mr. BOWMAN. Used for reserve.

Senator SHAFROTH. I think if that condition existed always we would have no trouble.

Mr. BOWMAN. It has existed a great number of years.

Senator SHAFROTH. That may be; there is no doubt about that. I do not anticipate any trouble in that line. The national-bank notes now are not redeemable in gold, are they?

Mr. BOWMAN. No.

Senator SHAFROTH. Should they be made redeemable in gold by the banks?

Mr. BOWMAN. You will not have any national-bank notes after a while.

Senator SHAFROTH. You will for 20 years.

Mr. BOWMAN. Not after a while.

Senator SHAFROTH. That may be, but for 40 years we have had——

Mr. BOWMAN. I do not understand there is to be any change made in existing conditions.

Senator SHAFROTH. I understand, but would you have the national-bank notes as they are now?

Mr. BOWMAN. I think I would let them stay as they are.

Senator SHAFROTH. As they are? Do you not think this currency could stay just exactly as the national-bank notes are?

Mr. BOWMAN. This is a new proposition.

Senator SHAFROTH. Yes; but it is supposed to take the place of the national-bank notes.

Mr. BOWMAN. If we give the national banks, as they exist at present, 20 years in which to change over and adapt themselves to the new order of things——

Senator SHAFROTH (interposing). You do not see any advantage in the United States Government having its greenbacks redeemable absolutely in gold and this circulation redeemable in lawful money?

Mr. BOWMAN. I should think not.

Senator SHAFROTH. Do you not think that if the banker should say to the man, "I will give to you lawful money," and he then would take that lawful money or have to take it to the United States Treasury or to San Francisco or to New York to redeem that in gold, that he would hesitate in doing that, and would not want the gold at all?

Mr. BOWMAN. I should say there would not be any objection, if you were a banker and I came into your office and presented some of these notes, which you propose to issue under this bill, and I said, "I want the gold," and you said to me, "Would you not just as soon have the greenbacks," and I said, "Why, yes; that will be all right." My contention is that when a man says he wants gold he should get gold and nothing else.

Senator SHAFROTH. You do not want to make it hard for the Government to maintain this gold reserve, do you?

Mr. BOWMAN. I do not believe it would be made very hard, Senator.

Senator SHAFROTH. It would be making it a good deal harder than if you had this condition where he could go to the bank and get his greenback, and if it was necessary for him to have the gold, he could go and get it at any one of these subtreasuries, would it not, according to the doctrine of chances of presentation of a thing of that kind, would it not be about one-half of the reserve in the Treasury could answer the purpose under this system which would otherwise take nearly double the amount in gold to maintain the reserve?

Mr. BOWMAN. Oh; I should think very likely.

Senator McLEAN. Senator Shafroth, if you will look at the bottom of page 29, you will see that these notes ought to be redeemed at any Federal reserve bank. You were right on that.

Senator SHAFROTH. Senator Nelson, I thought I read that (reading):

They shall be redeemed in gold or lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal reserve bank.

Senator NELSON. There is an inconsistency then between that and the other passage.

Senator SHAFROTH. That may be, but that is the language.

Senator WEEKS. You do not think it is possible to get gold for the national-bank note, do you?

Senator SHAFROTH. Not in practical effect, except when there is a strain, and this is intended to be used when there is a strain or crisis.

Senator McLEAN. You can take a national-bank note and then turn around to another window of the bank and get a gold note?

Senator SHAFROTH. Yes; but when a man has got a national-bank note out here in Cripple Creek, Colo., he goes into the bank, and says, "I want gold." The banker says to him, "No; I can not give you gold. I am not required to do that." And the banker gives him the greenback. That man has got in some way to be put to a little trouble in order to get gold on it, and consequently he would have to go to the mint at Denver, and demand it there, but that very transition of going there will have a tendency to make an impediment in the way, which, as a matter of fact, in the doctrine of chances will require a less quantity of gold to be kept on hand than if the system proposed by the witness should prevail.

Senator NELSON. Mr. Bowman, have you studied this bill for the purpose of forming an opinion as to what would happen, in the first instance, upon the enactment of the bill as it is to-day? Would it lead to a contraction of the currency, in the first instance, or a contraction of credits?

Mr. BOWMAN. Well, Senator, so many things happen differently from what you expect that it is pretty hard to express an opinion, but I should think it would.

Senator NELSON. Do you not think that it would afterwards, with this rediscount privilege and the privilege of securing currency by application upon commercial paper, have the danger of its leading, on the other hand, in the course of time, to an inflation of currency?

Mr. BOWMAN. It seems to me, that those two extremes are quite possible.

Senator NELSON. As I understand, Mr. Bowman, your opinion—and I want to say that I concur with you—is that this new currency should be the currency of the banks solely, the promises of the banks to pay money and not of the Government, and you base that idea, I take it, upon the prime fact that it is based upon the commercial credits of the country?

Mr. BOWMAN. That is correct.

Senator NELSON. It is based on the commercial paper currency issued by the regional banks to the reserve banks?

Mr. BOWMAN. Yes.

Senator NELSON. If you are right about that, that it ought to be the paper of the bank and not of the Government, would it not follow as a matter of justice and right, that the regional banks issuing this currency ought to provide the gold reserve for the redemption of those notes and not throw the burden onto the Federal Government—if you give the banks privilege of issuing currency on the commercial credits of the country?

Mr. BOWMAN. Yes.

Senator NELSON. And to make that paper good, you not only require the deposit of the commercial paper, but the bill requires a reserve of 33⅓ per cent?

Mr. BOWMAN. Yes.

Senator NELSON. In gold or lawful money—it ought to be gold, I agree with you on that—but why should not the banks who issue those notes and whose promises they are—they do have the sole authority to redeem these notes, and why should not they supply the gold? Would not that be the logical and fair thing?

Mr. BOWMAN. I should think it would.

Senator NELSON. And not throw the burden on the Federal Government?

Mr. BOWMAN. Yes.

Senator NELSON. Mr. Bowman, under the existing law of 1900 there is a provision made for securing gold if it is necessary for the purpose of maintaining the parity of that currency, the greenbacks, and as it is construed the silver dollars, but that is only for maintaining a parity for that currency. Without some legislation in this bill there is no provision in the law under which the Government could provide itself with gold, if you cast the burden of redemption on that; is not that true?

Mr. BOWMAN. I should think so.

Senator NELSON. Would not it be the fairest and most honest and businesslike way, both from a banker's standpoint and the commercial standpoint, to make this currency a promise of the bank and make the bank furnish the gold for the redemption and not throw the burden on the Government?

Mr. BOWMAN. I think so, Senator.

Senator NELSON. That would be the legitimate and proper way.

Mr. BOWMAN. I think so.

Senator NELSON. And not have this double promise and liability on the notes—promise of the Government and an implied promise of the bank and then a double liability requiring the banks to redeem and the Government to redeem. You have doubled that promise, and you have doubled the method of redemption. Would it not simplify it to have the sole promise of the bank and the sole redemption of the bank in gold?

Mr. BOWMAN. I think so. My own judgment is that the Government should be divorced entirely from it.

Senator NELSON. Yes, sir; and in that way ultimately we would retire all of our national-bank notes, and, aside from the greenbacks—leaving that out of the question—we would have one uniform currency in this country, redeemable in gold?

Mr. BOWMAN. Redeemable in gold.

Senator NELSON. And its elasticity would arise from the commercial business of the country.

Mr. BOWMAN. I was just going to say, we would have one—and that is a condition to be looked forward to with great desire—one currency——

Senator NELSON (interposing). One paper currency.

Mr. BOWMAN (continuing). Supported by proper gold reserve.

Senator NELSON. The increasing or decreasing as the needs of commerce dictate.

Mr. BOWMAN. And that is ideal.

Senator NELSON. And on that principle elasticity arises to a large extent from the commercial needs of the country?

Mr. BOWMAN. Undoubtedly.

Senator NELSON. That will be the guiding star. Of course, there ought to be some Government regulation to restrain it, if it should become necessary, from issuing too much of this currency, because the member banks might flood the regional banks with this paper and seek an inordinate amount of currency under the bill?

Mr. BOWMAN. They might. There should be proper regulation of it, but the banks would not in the natural course of things call for any more of that currency than they had use for. Of course, however, they might.

Senator NELSON. I do not want to keep you too long. Do you not think it would be a good plan for these reserve banks, when they issue this currency upon this commercial paper, to issue it, not as provided in the bill, upon the face value of the paper, but on the discount value of the paper—you know the difference I mean between them?

Mr. BOWMAN. Yes.

Senator NELSON. And then if it is issued on the discount value of the paper, give the regional banks the right from time to time to fix the discount. I will put the case to you as I did to another gentleman from your State, Mr. Blinn, and that is this, that if you give the regional bank the right to fix the discount rate, that would prove both a measure of regulation as to the volume of currency and a regulation of interest rate, would it not?

Mr. BOWMAN. I think so; I agree with what was said this morning about that.

Senator NELSON. I am much obliged to you, and I am sorry I have kept you so long.

Mr. BOWMAN. May I be excused now?

Senator SHAFROTH. I think so, yes.

Mr. BOWMAN. I am much obliged to you, gentlemen, for your courtesy.

STATEMENT OF JUSTIN E. VARNEY, VICE PRESIDENT AND CASHIER BAY STATE NATIONAL BANK, LAWRENCE, MASS.

Senator HITCHCOCK. Please give your name, address, and business to the stenographer.

Mr. VARNEY. My name is Justin E. Varney, and I am vice president and cashier of the Bay State National Bank, Lawrence, Mass.

You had, gentlemen, before you this morning a very interesting statement by Mr. Blinn, who is president of our Bankers' Association in Massachusetts, who gave you some large figures. I will give you this afternoon some comparatively small figures, but figures that our committee thought you might be interested in and which would be of some help to you. They are figures based on a concrete case. That concrete case, the bank with which I am connected, showing, I think, how this bill would affect us. You, of course, realize that I come from one of the largest textile centers in the world, and that we have a very cosmopolitan population working in our mills, and our large corporations do not borrow in Lawrence. They finance themselves outside Boston, New York, and Chicago. The finances of Lawrence, so to speak, are controlled and confined to the pay rolls that are paid out in those mills. There is a very large amount paid each week. The Bay State Bank, I think, perhaps is just the medium example of the country bank of Massachusetts. We have a capital of $375,000. We have deposits of $1,000,000.

Senator NELSON. How much surplus?

Mr. VARNEY. The surplus on our books is about $100,000.

The reserve now required, as you know, is $150,000. Three-fifths of that may be in our own vaults—$90,000; two-fifths of it, $60,000, with the reserve agents. The $60,000 which can be with the reserve agents is divided up amongst several banks, all acting as reserve agents. Because of collections they make for us, we make that reserve quite profitable to ourselves. Thirty-five thousand dollars of that is so divided, and that nets us from $1,000 to $1,500 a year. Of the $60,000, $25,000——

Senator POMERENE (interposing). At what rate of interest?

Mr. VARNEY. That varies. I do not mean to have any collection accounts but what will pay us about 3½ per cent. That varies, however. I can not state any fixed rate. Of the $60,000, $25,000 is at 2 per cent and nets us $500. The reserve required under this Federal reserve act would be $120,000. We should be obliged to keep $90,000 in our vault anyway, and a large part of the time that would be nearer $150,000, because of the requirements of the pay rolls. Five-twelfths of it, that is, $50,000, after 36 months must be with the Federal reserve bank. At that rate our reserve would be $140,000 instead of $120,000,

and our reserve would actually be nearer 16 per cent than 12. If we were in a good many communities where it was not incumbent upon us to keep so much cash, we could keep right down to the reserve that is specified in this bill, of 12 per cent, but we shall probably have to carry about 16.

Senator POMERENE. Let me catch you there. Do I understand that according to your calculations the pending bill would increase the amount of your reserves?

Mr. VARNEY. No, I do not mean that, but I mean to say that while this bill cuts our present reserve of 15 per cent to 12, allowing only 12, we should have to carry about 16.

Senator POMERENE. You have to carry it anyway——

Mr. VARNEY (interposing). I beg your pardon.

Senator POMERENE. You have to carry that anyway under the present law?

Mr. VARNEY. We have to carry it anyway.

Senator WEEKS. Then the change would not be of any advantage to your bank?

Mr. VARNEY. I was going to bring that out.

Senator WEEKS. Proceed.

Mr. VARNEY. If present arrangements of collections and accommodations are maintained—before I go on to those figures I want to speak a word, if I may, in regard to those present arrangements of collections and accommodations. This bill disturbs, if it does not disrupt, the relations—I will not call them pleasant relations, although they are—present relations of collection and accommodation between a country bank and its city banker. The city banker, the reserve agent, and the country bank are very closely connected and must be. There is no way of divorcing them if we are to carry on a successful system of banking. We should have to have, if we want to keep up our present rate of earnings, some sort of a relation to maintain these collection agencies. We should also have to have a certain amount deposited in Boston, which could not be counted as a reserve, of course, but we should have to have that to get our accommodations.

Senator NELSON. Your exchange business?

Mr. VARNEY. I did not mean that, Senator; I meant, if I may refer to it again, the pay roll business.

Senator NELSON. Oh, yes.

Mr. VARNEY. For instance, to-day is Friday. Perhaps to-morrow at half-past 8 in the morning we have got to pay out $125,000 in actual money—bills. The teller comes to me at 11 o'clock this morning and says, "I can not get but a very small amount of money here in Lawrence." I have got to get it quick from Boston, and that has got to be largely sorted money, ones, twos, fives, tens, and so on, because your corporation paymasters will not accept mixed money. I must have that money quick. In order to get that sort of an accommodation, I have got to keep—and I think it must be very evident to you—a good fair balance in Boston. That explains what I mean by "pleasant relations of collections and accommodations." In order to keep that money in Boston, I have got to get that money somewhere. I have drawn out my $60,000, which is with the reserve agents, and I have put $50,000 of it with the new reserve bank. I have got to get that money from somewhere. I do not know of any

other place to get it except to call in some loans. This is a very small example; but you have asked the question several times here to-day, "Will the influence of this bill be to somewhat contract loans?" I should say it would. I do not know how the country banker is going to get his money any other way, except to contract his loans. He wants to keep all his money working, and so he has loaned it out. He must get that money somewhere, and he has nowhere else to get it, as I know of, except to call in some loans or sell some bonds. He calls in his loans and deposits with his former reserve agent $35,000. That is going to mean a loss of between the 5½ per cent which that money formerly paid him on the loans—of course these figures must of necessity be somewhat in the rough—he is going to be at a loss of between 5½ per cent which was formerly got on that money and 3½ per cent, which I said a few moments ago those collection accounts paid us. There is a loss of $700.

He also calls in some loans and deposits $25,000, at least, with a bank so that he can get these cash accommodations. The loss on that is between 5½ per cent and the 2 per cent which that will pay him, only, is $875. The loss of interest on deposit with the Federal reserve bank, $50,000, which we have formerly had to work, as I have told you, partly at 3½ per cent and partly at 2 per cent—I have struck an average there of 2¾ per cent. The loss on that is to be $1,375. The loss of interest on our 5 per cent fund, I have reckoned at 2 per cent, because we have been allowed to count that as reserve. Now, we shall not, and so it will be the same as 2 per cent loss on that—that is $370.

Senator HITCHCOCK. What do you refer to as the 5 per cent fund for redemption?

Mr. VARNEY. Five per cent fund for redemption that lays in Washington, but we are allowed now to reduce our deposits, to count that as reserves, or reduce our deposits by six and two-thirds times that, which amounts to the same thing.

There is a loss of $370. The loss of the difference on the average interest of the possible capital paid in, between the 5½ per cent which it pays now, and 5 per cent at the most which this bill says can be paid, one-half per cent of $75,000 is $375 a year. That gives us a total loss under this new bill of $3,695—almost 1 per cent on our capital.

I have tried to make those figures as carefully as I know how, and I think actual experience will bear them out. Here is a bank with $375,000 capital, and it worked out that under this bill we will have lost about 1 per cent—I would like to touch, if I may, on two or three phases of this matter that have been brought out here by others—saying nothing of the possible loss on the United States 2 per cent bonds. Being in the community we are, and having the ability to keep out our circulation every day in the year and make it quite remunerative. And, by the way, our circulation pays us at least $3,000 a year, and if we surrendered our circulation, of course, we should lose that; but, supposing we keep our circulation but the bonds have depreciated very largely, as they have now, there is another loss which you can estimate as well as I.

Here are the losses, but I can not see, gentlemen, how we are to get any advantage—country bankers, like ourselves—out of this bill.

Senator NELSON. Can you not get any "value received"—that is what we would like to know—what benefits the country bank would get out of it.

Mr. VARNEY. I can not see any. I can see the losses, but I can not see any benefits that the country bank would get out of it.

Senator SHAFROTH. Suppose by reason of this system it should be recognized that the country banks can operate upon exactly the reserves that are prescribed by the bill. Then there would be a great advantage to the banks, would there not?

Mr. VARNEY. I am simply giving you, Senator, the facts. Yes; I think there would; but I am giving you the concrete example of a country bank that I am familiar with.

Senator SHAFROTH. You would realize for bank operations 3 per cent upon your total deposits, would you not?

Mr. VARNEY. Three per cent——

Senator SHAFROTH (interposing). The difference between 15 per cent and 12 per cent?

Mr. VARNEY. Yes; but to offset that, Senator, let me suggest we are going to pay in a certain part of our capital, which I have shown you there is a small loss on—between 5 and 5½ per cent. We are also going to deposit our reserve with you, which now we get 2 per cent on, and then it would be nothing. We are also going to put perhaps, as you hope, some deposit with you, but as I understand it at no interest, and it seems to me——

Senator POMERENE (interposing). Are you assuming you are going to carry all your reserves with this reserve bank?

Mr. VARNEY. We have got to, all our reserve agent money, because the reserves of it is needed——

Senator POMERENE (interposing). But you have spoken about the reserves that you now carry in excess of the lawful requirement?

Mr. VARNEY. Yes.

Senator POMERENE. Do you anticipate that you would carry all of your reserves in excess of 12 per cent with this reserve bank?

Mr. VARNEY. We should carry all but what is actually needed in working cash in our own vaults with the reserve bank. We shall have to in order to keep up to your requirement.

Senator SHAFROTH. The proposition that I stated to you, namely, that you would not have to carry any more reserves than the law required, would release, over what you now carry, a great volume of money, would it not? You say you carry 16 or 17 per cent now?

Mr. VARNEY. Sixteen per cent, about that.

Senator SHAFROTH. Sixteen per cent?

Mr. VARNEY. Yes.

Senator SHAFROTH. It would reduce that down to 12 per cent, which would be 4 per cent upon your total deposits?

Mr. VARNEY. I can not reduce that.

Senator SHAFROTH. I am assuming that this great backing that you get from the United States Government would enable you to do that.

Mr. VARNEY. I can not figure it out that way.

Senator SHAFROTH. Do you not think it is worth something to be able to go to a Government institution and say to them, "I have got here collaterals that I want money on"? Do you not think that is worth something as against your reserve?

Mr. VARNEY. That is not worth any more, Senator, than it is to slip right down to Boston, an hour away, and say, "I want $50,000 or $100,000 on my balance sheets." It is not worth any more to me.

Senator SHAFROTH. Oh, yes; it is. It is worth a good deal, because at the same time you are doing this you are putting into circulation that which relieves the entire situation, namely, currency.

Mr. VARNEY. I have never seen the time yet when I have been able to put into circulation all the currency that was needed in our vicinity.

Senator SHAFROTH. That may be, but we know that in 1907 you were not able to get any out of the banks of New York.

Mr. VARNEY. I did in Boston.

Senator SHAFROTH. That might be, but you could not get it in Minneapolis.

Senator NELSON. You could not get it in Alexandria.

Mr. VARNEY. I got it in Boston both in 1893 and 1907.

Senator SHAFROTH. You could not get it in Chicago.

Mr. VARNEY. We were not short one pay roll. We received all the cash we needed.

Senator SHAFROTH. That may be, but these shortages do occur, and they have to issue clearing-house certificates and things of that kind in order to relieve the situation?

Mr. VARNEY. Oh, yes.

Senator WEEKS. Was there any concern of any kind short in their pay rolls in 1907 in Massachusetts?

Mr. VARNEY. Not that I know of.

Senator WEEKS. Did not the Boston banks supply everybody in Massachusetts with sufficient circulation to meet their pay rolls?

Mr. VARNEY. As far as I know.

Senator WEEKS. I never heard of a case otherwise.

Mr. VARNEY. I recollect, in 1893——

Senator SHAFROTH (interposing). If there is plenty of money for pay rolls always and it is going to be that way, there is not any need of a bill at all; but we recognize there is a necessity for this congested condition that arises occasionally.

Mr. VARNEY. I recollect in 1893 I telephoned to our bank in Boston and asked them if they would send us up any part of $10,000 in bills or silver. I said, "Just give us some money; our pay rolls must be made up." They begun, and within a week they had sent us up $50,000. They have always responded. I do not know where they got it; I can not explain that, but they have always responded to all our calls.

There are one or two items, gentlemen, that I would like to bring out, if you are willing. One is the matter that has been touched on, of competition of the regional banks and the necessity of that competition to fix the rate of interest. It strikes me, as I know country banking and have known it for a great many years, that that necessity of competition—they are going into the open market I suppose and buying notes the same as usual, but it seems to me that competition will be wholly unnecessary, because the rate of interest and the supply of money will be governed by the public, I mean the borrowing public, and I will illustrate it this way: A man comes into me and says, "Here, I want to borrow $10,000." "Well, but we are short. Money is tight." "O, well," he says, "I know all about

this regional bank business, and you can go there and get it." We are going to be faced right up with that, and rightfully, too. I think that the borrower himself, if he puts up a good note is going to come pretty nearly regulating the rate of interest, and the supply of money. I do not believe that it is just. I do not believe that it is right from any standpoint to compel the banks to pay this capital into this regional bank, and then let that regional bank turn right around and become our competitors, and I do not think there is any reason or need of it.

Senator POMERENE. In one moment you complain because this money is tied up in the regional bank, and you will not get any return on it, and on the other side it is objected to because it will be in competition with your money; that is, a part of your money would be in competition with the bigger part of your money?

Mr. VARNEY. Yes. It has been mentioned here that this will regulate the rate of interest. I do not know, and in all my experience I have not seen, anything that regulated the rate of interest or volume of currency in this country except supply and demand, and that supply will be gotten from your regional banks. I do not see but your supply and demand come right together there, and there will be no need and no reason why any other course should be adopted to fix the supply of currency or the rate on money.

Mr. VARNEY. I would like to speak a moment on the control of the regional banks. As I read the bill, these regional banks have nine directors. It is quite possible that only four of those shall be bankers; five not bankers—five inexperienced in the management of finance. That is as I read the bill. It is specified plainly that three shall not be bankers. Gentlemen, I want to say that it is very hard to go into a good many communities in this country and pick good men who would be capable men for the management of such large financial matters as these regional banks would be, who are neither national-bank directors, trust company trustees, or savings bank trustees. It will be a hard matter.

Senator SHAFROTH. The Bank of England does it; the Bank of Germany does it; the Bank of France does it.

Mr. VARNEY. That may be, but we have come pretty near, in very many communities, scouring the field for directors and trustees.

Senator POMERENE. Very often they are selected because it is expected that they will bring depositors and customers to the bank.

Mr. VARNEY. But I will concede that, Senator. In nine cases out of ten they are selected because of the value of their advice. We must have that advice. They are selected because they know one kind of business. Another director knows another kind of business, and of course our business—banking—comes in contact with very many kinds of businesses, and we want men who are familiar with it.

Senator POMERENE. Do you not anticipate that the same care and caution will be used when we come to the selection of class B of these directors?

Mr. VARNEY. That may be. I will not dispute it. I do not know, and I will not dispute that. But it seems to me that it is not right to compel the banks to put their money in, contribute their money toward this capital, and then take away from them a voice in the management. I think all the banks ask for is a voice.

Senator POMERENE. Are you speaking of the regional bank?

Mr. VARNEY. I am speaking of the whole fabric, the whole system. The same principle runs through it all. But we shall come more in contact with the regional banks. They will have men who will be called upon to pass on our paper, and I say they should be men who are familiar with the finances of these districts.

If you will let me touch on one other thing, I believe I shall be through. It has been told you to-day by one of our committee that Mr. Philip Stockton, who was a member of the large Old Colony Trust Co., of Boston, made the remark that there was nothing in this bill that appealed to him or which would influence him to go into this new system. He could not see a thing. I want to submit this proposition: It has seemed to me for a good while that the finances of this country will never be on the best and the soundest basis until there is a bill passed which will be so attractive to national banks and trust companies and to all——

Senator NELSON (interposing). State banks?

Mr. VARNEY. State banks and to all financial institutions. By financial institutions I mean mercantile financial institutions; I do not mean savings banks. The bill should be so attractive to all of them as to draw them in under one system.

I want to mention in regard to that the usefulness and, it seems to me, the necessity of having our financial system on a sound and attractive basis. Our system has gotten to be so large now, and there are so many large institutions, it seems to me that the management and the examinations of all the mercantile institutions of the country should be under one head. You may know that there was a regulation sent out from Washington not long ago which influenced Mr. Ewer and Mr. Gage, who have been bank examiners in our district for a great many years, to give up the examinations of national banks and confine themselves to private examinations of trust companies and other banking institutions. They had been examining these trust companies and other institutions. They had gotten inside, so to speak, all the inside information which could be gotten, both on trust companies and national banks. Now there they are, no longer examiners of national banks; they are examiners of trust companies. They are not in a position any longer to help the United States Government in regard to credits of national banks as connected with the credits of trust companies.

Gentlemen, I think you know, you must know, that the similar credits of trust companies are also found in national banks and are all intertwined, and it is one of the most necessary things for the United States Government managing the national banks to know what is in the trust companies of the country as well as the national banks, and in that way, it seems to me, that the very thing the Government saw fit to displace Mr. Ewer and Mr. Gage for was the very reason why they ought to have kept them.

Senator WEEKS. I am very glad to hear you say that, Mr. Varney, because it seems to me that the comptroller's office was taking a very inadvisable step. The fact that they were examining private trust companies, which in Massachusetts are really State banks doing a general banking business, and national banks enabled them to see where people were overextended, very frequently, and to warn the banks that certain lines of paper were in their institutions which

were not safe, and therefore they were of value to the Government and to the State as well; and I quite agree with you that the step taken in severing those connections is a backward one.

Mr. VARNEY. It seems to me, Senator, that step merely illustrates the necessity of having one mercantile banking institution in this country, under one management and under one examination. These examinations are most valuable. They are as valuable as anything can be that is connected with financial institutions, and they ought to be made as thorough and as comprehensive as may be.

In regard to United States bonds—our 2 per cent bonds—I think that this Government ought to think pretty carefully before they take a step that shall upset the standing of those 2 per cent bonds. I do not want to repeat what has been said here to-day in regard to it. They were taken in good faith, and all that sort of thing. But I want to remind this committee of Senators that the 2 per cent bonds now held as security for circulation are simply the successors of a higher rate of bond which national banks took in time of great need of this Nation, and now if the United States Government takes any action that will interfere with the value of those bonds and cause great loss throughout the country on those bonds to the banks, I want to submit this question: If the need arises again, and it may—we are not immune here in this country from trouble—if the need arises again I want to ask the question if it is supposed that the national banks of this country will rally to the support of the Government in furnishing them money as they did before. I think it is a sober question, Senators. I think it should be regarded and thought of.

Senator NELSON. Would not the substitution of 3 per cent bonds in place of the 2 per cent bonds be fair?

Mr. VARNEY. I can not quite answer that fully, Senator, for this reason: I am afraid that the 3 per cent bonds, with so many thrown on the market, would not sell at par. I would favor, if they do not want to maintain the volume of these twos, the substitution for those twos of 3½ per cent bonds, and while the bank has them enlarge the tax so that the income to the banks will not be increased; but they will be a security that can be sold in the open market if the bank wants to sell. I do not think that it is a thing that the Government ought to be responsible for, but we know that very many of the banks have paid 107 or 108 for the bonds; but they took the risk on that.

Senator NELSON. For the twos?

Mr. VARNEY. Yes. They sold as high as 110. They took the risk on that, though.

Senator NELSON. They got into the hands of the combination up in New York?

Mr. VARNEY. I think not, Senator. That was a time in the early life of the bonds. They had a long time to run.

Senator NELSON. I mean 2 per cent bonds.

Mr. VARNEY. I mean 2 per cent. They were still valuable at that price. They could charge off a certain amount and still make their circulation valuable.

Senator NELSON. If the Government redeemed them at par and retired the circulation gradually, that would not work any injustice, would it?

Mr. VARNEY. Oh, no; it would not work any injustice as far as we are concerned. We should be sorry to see that done, because it pays us.

Senator NELSON. Retire it gradually and substitute this new currency for it?

Mr. VARNEY. Yes. They could do that, or substitute 3½ per cent bonds.

Senator NELSON. That would be a contraction of the currency. I hope any system we pass here will have as an ultimate result to give us one uniform paper currency outside of the greenbacks.

Mr. VARNEY. I can not go now until 7 o'clock, Senator.

Senator NELSON. I will not detain you.

Senator WEEKS. You referred to your relations with reserve agents. There was one connection which you did not speak of, and which it seems to me would necessitate a country bank keeping the deposits with some city bank, whether they were any benefit as reserves, and that is the many little obligations you are put to in your banking connections. I do not know that you do it, but generally speaking country banks depend on the city connections or the reserve agent for advice in buying paper, which is freely given; and in other words, you get the benefit of the credit department of the great banks and get that without any compensation whatever, and that is of material benefit to every country banker.

Mr. VARNEY. That is so. We, as you personally know, Senator, are not in the market very much for mercantile paper. Our real estate takes the place of a large part of our loans.

Senator NELSON. Real-estate loans?

Mr. VARNEY. No, sir; a large piece of real estate which we own, an office building. So we do not use our reserve agents in that way as much as I know a great many other banks do. But as an illustration of what Senator Weeks says, I want to say that we keep a perfectly inactive amount of $5,000, or between $5,000 and $6,000, with the Chase Bank of New York, simply for the sake of having a bank there that we can go to for information on different matters. That may seem simple to you Senators, but to a country bank such matters are vital to its life. It is very important that they have some such connection. It is perfectly apparent, gentlemen, that we can not get these favors which we must ask for to carry on our business without in some way paying for them, and the natural way for a bank to pay is to keep an account. It is precisely the same as you and I and others keeping accounts in national banks, and the better the account the more assurance we have to go there and ask favors.

Senator WEEKS. It is very frequent, too, for reserve agents to make loans.

Mr. VARNEY. Oh, very often.

Senator WEEKS. To make them for their correspondents?

Mr. VARNEY. Yes; and they carry their collateral loans.

Senator WEEKS. And they exchange, and do all those things without any charge.

Mr. VARNEY. I would like to mention this, gentlemen, while I may, in regard to the collateral loans which seem to be rather in disfavor. I have now been in the banking business 40 years. There has never been a loan—and I am also connected with a large savings bank in Massachusetts where we have many collateral loans—there has

never been a form of loan which has so uniformly been without loss in payment as our collateral loans; and I want to say this to you: A savings bank in a place like Lawrence is very liable to a run. We have 10,000 Italians, 5,000 Syrians, 5,000 Poles, and all that population in Lawrence. They are a very inflammable people; and you let a rumor get started of any little weakness in a large savings bank, and it is very likely to start a run. There has never been a form of note which has been surer and quicker for us to meet that run with than our broker's collateral loan. I want to say that in favor of it.

Senator NELSON. What kind of notes are they?

Mr. VARNEY. Broker's collateral loans.

Senator NELSON. Are they given by wholesalers, merchants——

Mr. VARNEY (interposing). Oh, no, sir. They are note brokers and bond brokers in Boston. You may know some of them—Lee, Higginson & Co.

Senator NELSON. What is the paper? Is it a bond?

Mr. VARNEY. The paper is a note secured by stocks and bonds.

Senator NELSON. Oh, yes; I see. They are notes of those brokers of Boston given to your banks secured by collaterals of stocks and bonds?

Mr. VARNEY. Yes, sir; on which we have advanced the money.

Senator BRISTOW. How much of the paper of your bank would be available for currency issued under the provisions of this bill?

Mr. VARNEY. Of course, we have a good loan of, we will say, $700,000, in the rough—probably $400,000 of that would be available; most likely.

Senator BRISTOW. That is, $400,000 of it is 90-day paper?

Mr. VARNEY. Oh, excuse me. I forgot that. No; that is not true. I had in mind the goodness of the paper, the kind of paper that would appeal to this board; but it is not 90-day paper.

Senator NELSON. As to time?

Mr. VARNEY. I think you will find that in the banks to-day, aside from the demand loans, which I take it would not be taken by this board?

Senator BRISTOW. That is forbidden.

Mr. VARNEY. Aside from the demand loans, where the note is paid every three months, I think you will find comparatively little to-day of three months' paper. If this bill was enacted, there might be more three months' paper made instead of four, five, or six months.

Senator NELSON. What is the time in which it is usually made?

Mr. VARNEY. Anywhere from three to six months.

Senator BRISTOW. What is the nature of this paper that you are talking of? Who makes these notes, as a rule; what class of your citizens there?

Mr. VARNEY. All classes. For instance, the merchant on the street, if he wants to buy his fall goods, will come in and borrow $20,000 to buy his fall goods. That would be paid for $5,000 at a time, perhaps, and by February it will all be paid for. Another man wants to buy a piece of real estate, and he pays $10,000 for it and gets a mortgage of $5,000 and has got $2,000 in cash, and he wants to put up a note for $3,000. His note is perfectly good, because he has more property besides that.

Senator NELSON. And you have the real estate mortgage as collateral?

Mr. VARNEY. Oh, no, sir; that is not permissible for national banks.

Senator NELSON. They do out West.

Mr. VARNEY. It is permissible. The comptroller made it permissible for national banks to take strictly first-class mortgages as collateral loans, and so in some cases we do indirectly loan on real estate.

I am glad you mentioned that, because that leads me to touch on another phase of this act. You have a clause there, an enabling clause, to provide for the taking on of some farm loans. I can see no reason why a national bank—I am not a country banker; perhaps it would not be wise for a central reserve except in large cities—but a country bank, whose assets are not supposed to be quite so liquid as a central reserve city, should not be allowed to a certain extent to take on securities on real estate. I have found in my experience that you can not get a better and more secure loan than from mortgages. I would not allow a bank to take over 15 per cent of its capital and surplus and put that into mortgages, because a bank ought to keep its assets more liquid.

Senator NELSON. In the West, in the country banks, the bulk of the deposits are time deposits. But would it not be better to base it on a certain percentage of time deposits instead of capital and surplus?

Mr. VARNEY. That might be. I had not thought it over, but I would not allow a bank—the idea I would like to throw out is that I would not allow a bank to put a very large percentage of its assets into a mortgage.

Senator NELSON. Do you regard it as good security?

Mr. VARNEY. I regard it as good security—in many cases as first-class security.

Senator BRISTOW. You said that but a small part of your paper was 90-day paper, and added that if the bill passed a larger amount of it would probably be made 90 days. That does not mean that you would require your customers to pay their obligations sooner than they now do, but you would shorten the time in order to bring it within the limitations of the bill?

Mr. VARNEY. If I found our customers wanted to use that privilege to any extent. That brings to my mind another thought. You may get tired of these thoughts, gentlemen.

Senator POMERENE. Go ahead.

Senator BRISTOW. That is what we asked you to come for, to hear your thoughts.

Mr. VARNEY. That brings to my mind another thought, whether it is best to confine these notes to strictly mercantile paper that is pledged. There are very many other kinds of paper which is superior, say, to what is based strictly on produce or products. For instance, I want to illustrate. A man is worth $100,000, and we know it. He comes in and wants to borrow $10,000. It is not right for us to ask him what he wants that money for; he wants it, and it would not look very well if we asked him what he wanted to do with it. That is not based, we will say, on produce, or anything of that sort; it is based on goods. It is "borrowed and received"; it is perfectly good. Why ought not that note to be perfectly good with this reserve board?

Senator POMERENE Do you think that would not be embraced within the term "commercial paper," in its broader significance?

Mr. VARNEY. If you think it would. I did not suppose it would.

Senator POMERENE. I am not sure about it; I am asking you.

Mr. VARNEY. My impression is that the bill says it must be based on notes given, broadly speaking, for merchandise.

Senator BRISTOW. I think that is the intention of it.

Senator POMERENE. The bill has been a good deal criticized for its indefiniteness.

Mr. VARNEY. It is a little unwise.

Senator BRISTOW. I am interested in having a Massachusetts banker advance that idea, for that has been the universal idea of those of the West, but in the East they seem to have adhered to the prime commercial paper that matures in a short time; and your observation leads me to believe that a country banker in New England is doing a good deal the same kind of business that the country banker does in other sections of the country. That is, he is accommodating the business men of his community and adjusts the time of his loans to the conditions that exist in the incurring of the indebtedness and the realizing on the business whatever the indebtedness is incurred for.

Senator POMERENE. If you will pardon me, I have the language to which I think you refer:

> Upon the indorsement of any member bank, any Federal reserve bank may discount notes and bills of exchange arising out of the commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or may be used for such purposes; the Federal reserve board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this act. Nothing herein contained shall be construed to prohibit such notes and bills of exchange secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount: but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities.
>
> Notes and bills admitted to discount under the terms of this paragraph must have a maturity of not more than 90 days.

Mr. VARNEY. That wording there, "which may be used," it seems to me, that ought to cover the matter.

Senator POMERENE. I should think that that covered that class of paper that you spoke of.

Senator BRISTOW. The question has been quite elaborately discussed here as to just what that does mean, and both views have been taken—that it does mean general notes, such as you describe, but others say that it only means goods in payment for merchandise or bills of lading; that is, shipments of grain or cotton or agricultural products of that character, where there is to be an immediate realization on the transaction.

Could you estimate what per cent of your present business, as you are now running your bank upon the theory that this is prime commercial paper which is maturing within 90 days; that is, paper for commercial business for the purchase of merchandise, for the handling of grain or cotton—what per cent of your loans would come within that 90 days?

Mr. VARNEY. I do not think, Senator, that I can estimate that, even roughly, because, as I have said, in the ordinary country bank, in the general country bank, there is no measure to-day, it seems to me, of 90-day paper. I would not want to estimate as to how much

of our paper was based on such things; I would not do it. If I had known before I came here, I could have gotten those figures.

Senator BRISTOW. As I understand from your answer to Senator Nelson's inquiries, you believe that these notes of business men or first-class real estate or farm mortgages are just as good and reliable a security as any 90-day paper would be?

Mr. VARNEY. Why, yes, sir. But for the purposes that it is pledged for, it strikes me that it would be better to have shorter time paper with a definite due date, within 90 days.

Senator BRISTOW. Why?

Mr. VARNEY. To make it more liquid.

Senator BRISTOW. That is, so it would be paid?

Mr. VARNEY. Yes; there is less liability, broadly speaking, for a man who has issued a note or signed a note, of getting in trouble in 90 days than there is in 190 days.

Senator BRISTOW. Do you believe that the notes that you have in your bank are any better secured than your four months' or six months' notes?

Mr. VARNEY. No, sir; but if I could have all of our bills receivable payable within 90 days, I would like it a good deal better.

Senator BRISTOW. You would?

Mr. VARNEY. I certainly would.

Senator BRISTOW. That is, you would rather collect and reloan all of your entire amount every 90 days?

Mr. VARNEY. I would rather do it four times a year.

I would like to say in regard to this pledging and rediscounting that personally I do not suppose a great many bankers would agree with me, but it does not appeal to me. I can see no need of it, either. I can not see the difference between requiring a bank to put up its actual notes which are a direct lien on all the assets of that bank, if it endorses that note—I can not see the difference between that and an asset currency based on the assets of the bank.

Senator BRISTOW. I am very much interested in your statements here, because they seem to be individual opinions growing out of your experience. I can not see—of course, I am not a banker—why the notes of the bank with any kind of good assets as a collateral would not be just as good for currency as anything else.

Mr. VARNEY. I will illustrate it this way. We go to Boston—I have mentioned having the privilege of going to a bank any time and asking for $50,000 or $100,000, if we want to make large loans for any special reason. I go there and they are perfectly contented to loan on what we call borrowed and received, signed by the president and cashier of the bank. There is a loan purely on the assets of the Bay State Bank, and they feel perfectly secure. Now, I do not believe that they would feel any more secure if I should carry to them $50,000 or $100,000 of my bills receivable and indorse them. I do not think they would feel any more secure. They have a lien and a straight lien and a complete one on all the assets of the Bay State Bank.

Senator BRISTOW. Of course, you may do away with these assets in some way.

Mr. VARNEY. Yes, sir; we have a building there that we would not do away with; but every bank does not have that.

Senator BRISTOW. I would like to know why it is that a mortgage on a farm, which is the basis of our national existence here, conservatively made on the value of the land, is not as good a security as can be found?

Mr. VARNEY. It is, if it is passed upon by competent judges. It all depends on that.

Senator BRISTOW. Why is not that as good security for currency? This currency is to be returned to the bank. The Government is not going to collect these notes in 90 days. The bank collects the notes and collects these accounts, this paper, and takes up the notes which the Government has issued to it. Why is not a bond or a mortgage, if it has a good, A1 security, if it runs five years, just as good, so far as the Government is concerned, as paper that matures in 90 days.

Mr. VARNEY. You could put that exactly on a par, I think, with first-class, high-grade bond issues against different kinds of property. We have thousands issued against pieces of real estate, bonds of $100, $500, or $1,000, that sell broadcast. Those are capable of being just as good as any property which you can possibly hold.

This suggestion comes to me in regard to this making of notes, and I can not get rid of it. A great many of our people will take exception to it, probably.

Senator NELSON. Of your pledging their notes?

Mr. VARNEY. A man comes in and gives me a four-months note which is a perfectly good note. He stands high in the community and he is willing that the Bay State Bank, whose cashier and directors know all about his condition; he is perfectly willing, he is more than willing; he is a borrower and he wants them to know his condition; but he does not want that reserve board, off 100 miles or 200 miles, to have that note of his presented there. So he comes in a month before that note is due and he says, "I want to pay my note." We will give him a rebate of interest, of course. We will say, "We have not got your note here; it is pledged with the reserve bank." Can you imagine that some men might have a little feeling about that?

Senator BRISTOW. I know how they would feel.

Senator NELSON. That is the objection they have to the system of rediscounts.

Senator BRISTOW. As a matter of fact, you will not sell the notes of your customers of that kind, will you?

Mr. VARNEY. If it is first-class, high-grade notes I might be awfully tempted to if I wanted this currency and was badly in need of it.

Senator BRISTOW. You would not do that unless you were badly in need of it?

Mr. VARNEY. No; probably not.

Senator BRISTOW. I think that is illustrated by a little experience which I had once, and I give it to you because it illustrates a point that I want your judgment on. I gave a mortgage on a piece of real estate and it was given to a bank, a national bank. I do not know how they handled it, but I know that they did handle it. It ran for a long period, five years, I think. The president of the bank came to me one day and he said, "Would you object to my transferring that to a customer of ours who is anxious to get some real estate mortgages? He carries an account with us and he wants us to select for him, for investment, some mortgages, and we would like to trans-

fer to him this mortgage of yours, if you have no objection to it." Well, of course, I did not care. But the fact that he came to me indicated that he was delicate about transferring any of the notes or obligations of his customers unless he was certain it would be perfectly agreeable to them. Is not that a common feeling with bankers?

Mr. VARNEY. Well, we have never had this test put up, you know, but I think I know enough about the temper of borrowers to see that a great many would be averse to having his note sent out of the Bay State Bank to another banking concern. They are delicate about it. You may say that that is too particular altogether, but you can not take that feeling away from them.

Senator BRISTOW. Sometimes business men would rather that everybody did not know just what their business relations were; for perfectly legitimate reasons, too.

Mr. VARNEY. I have said that I wish a bill would be passed which would take in all mercantile banking institutions. I think that this bill might be so amended that the national banks would find it attractive. As long as it is to deal with national banks only, as far as it has gone, it should be made attractive for national banks. I want to say that I have talked this over at some length with our board. We have a board of representative business men. I have talked it over with our board, and there is a grave doubt, as the bill is in the present form, whether it would want to recommend to the stockholders to go into this institution as at present formed; but they do not want to go out of the national-banking system. We want to stay there. We have been there 50 or 60 years now, and we want to stay there. But we feel that we would like the bill so framed that we can come in, and come in gladly, and cooperate with the managers of it.

Senator NELSON. Here is Mr. Varney's statement, Mr. Chairman, and I want to put into the record. It is just a page. It is what he read from.

Senator SHAFROTH. There will be no objection to that.

Senator BRISTOW. There are some other matters I would like to ask you some questions about.

Senator SHAFROTH. Are there any other witnesses here?

Senator HITCHCOCK. No.

Senator SHAFROTH. Why not sit to-morrow?

The CHAIRMAN. There are several of the witnesses waiting to be heard. We are simply waiting for these gentlemen here.

Senator SHAFROTH. Do you not think that we had better sit tomorrow?

Senator NELSON. We have got a lot of outside business to do, department work.

Senator BRISTOW. If I may go on for a few minutes longer——

Senator HITCHCOCK (interrupting). I do not see any way to stop you. [Laughter.]

Senator BRISTOW. You touched upon an interesting point, and that is the cash reserve required was not as large as your business necessities required you to keep in cash on hand; that while you were only required to keep 15 per cent you do, as a matter of fact, keep 16 and would keep the same amount if you were not required to keep more than 10 or 12 per cent?

Mr. VARNEY. Yes, sir.

Senator BRISTOW. How generally do you believe that that condition exists with country banks?

Mr. VARNEY. I should think that would apply to all banks in large textile centers, as we are. I can conceive that it would not apply to a bank in the center of a farming community, or anything of that sort; but I should think where large weekly payrolls must be taken care of, a large cash balance must be carried.

Senator BRISTOW. As a matter of fact, I think, Senator Nelson, in our section of the country the national banks do carry a larger reserve.

Senator NELSON. As a rule, they carry more because they feel that they ought to have it.

Senator BRISTOW. They feel that it is necessary for them to have it.

Mr. VARNEY. I would like to say that we believe that a reserve is for emergency use, that that is what it is created for, and we have used it at times and cut it down pretty low. We carry in our vaults $20,000 all the time in gold—gold coin—as a part of our reserve, and when there has been a run on our large savings bank across the street, there is nothing to stop that run like carrying that gold across the street and dumping it on the table.

Senator NELSON. Especially among those foreigners.

Mr. VARNEY. I once spoke to the examiner about it, and I said, "We have depleted our reserve; it is pretty small." He said: "That is what it is for."

Senator BRISTOW. There is a thought, Senator Shafroth, that I have called your attention to. The reserve is not used as a life preserver, that is, nailed down and that can not be taken up. It is required just to meet such emergencies as have been suggested.

Senator NELSON. Let me say to you in that connection, Senator, that under the banking law if the reserve falls below the requirement the comptroller is [to notify the bank and the bank has 30 days to make it up in. And unless the comptroller notifies the bank there is no trouble brewing. It is only after the comptroller has notified the bank to replenish the reserve and it fails to do it that it is liable to any penalty.

Mr. VARNEY. Yes, but a well-managed bank will not wait for that notification.

Senator BRISTOW. No. Concerning the pay-roll condition of which you speak, you are the first witness we have had before us who has outlined to us a situation of that kind in the community, and I think, Senator Shafroth, that that demonstrates the great value that these hearings are to those of us who are not intimately familiar with the banking business.

Senator SHAFROTH. I have no doubt about it.

Senator BRISTOW. We have had conditions presented in Minnesota that were new to me, and the pay-roll condition in Lawrence is perhaps a condition that exists in a large number of cities where the textile industries are located, and I think it is very important that we should have it apparent on the record.

Senator WEEKS. That would be equally applicable in every manufacturing community?

Mr. VARNEY. I should think so, Senator; it would be applicable to Fall River and New Bedford and all of those places in the country

that are textile centers. I should say it might be somewhat applicable in Worcester, where they have so many pay rolls.

Senator BRISTOW. I am very much obliged to you, Mr. Varney.

Senator NELSON. You made a very interesting statement.

BAY STATE NATIONAL BANK, LAWRENCE, MASS.

[Capital, $375,000; deposits, $1,000,000.]

Reserve now required: $150,000. Three-fifths equals $90,000 in our vault; two-fifths equals $60,000 with reserve agents. Because of collections $35,000 of above $60,000 nets $1,000; $25,000 of above $60,000 nets $500.

Reserve required under Federal reserve act, $120,000: $90,000 in vault; five-twelfths equals $50,000 with Federal reserve bank; total, $140,000 equals 14 per cent reserve.

If present relations of collections and accommodations are maintained: Call in loans and deposit with former reserve agent $35,000—loss between 5½ per cent and 3½ per cent equals $700; call in loans and deposit for accommodations, $25,000—loss between 5½ per cent and 2 per cent equals $875; loss of average interest on deposit with Federal reserve bank, $50,000 at 2¾ per cent equals $1,375; loss of average interest on 5 per cent fund, now counted as reserve, $18,500 at 2 per cent equals $370; total, $3,320; loss of difference in average interest possible capital paid in $75,000 at one-half per cent, $375; total, $3,695.

This bank has cash demands of about $150,000 per week to meet manufacturers' pay rolls alone.

Respectfully submitted,

JUSTIN E. VARNEY,
Vice President and Cashier.

The CHAIRMAN. The Chair will submit for the record certain letters from bankers in the interior showing their viewpoint with regard to exchanges, and some letters which show an obvious misconception of the bill and its effect upon interior bankers.

(The letters referred to are as follows:)

FIRST NATIONAL BANK OF COMMERCE,
Hattiesburg, Miss., August 22, 1913.

Senator R. L. OWEN,
Washington, D. C.

MY DEAR SENATOR: Pursuant to our recent correspondence, I am addressing you with reference to the currency bill from the standpoint of the country banks.

The one particular feature of greatest interest to country banks is paragraph 6 of section 17, which threatens to force country banks to remit at par to cover collections. If this is due to the suggestions and influence of city bankers, they have sorely forgotten their friends in the country, their confiding, weaker brethren who have so long given them business and now deserve their support.

The country banking interests must be protected and safeguarded by the proposed currency reform, otherwise it will fall flat and will be of little benefit to the masses. Benefits only can flow to the rank and file through country banks, and the great cry against concentration of wealth and power in the centers only can be appeased by reasonable distribution of privileges throughout the country in such a manner as to enable every class to obtain its just proportion of the benefits. The best interests of big business demand an even flow of equities among the people, since peace and repose are essential to the well-being of finance, and if the proposed new system brings about happy results it must be by satisfying the people; otherwise agitation and unrest, so disastrous to business and enterprise, will not cease, but continue in every quarter.

At present the country banks are charging for remittances to cover collections. They can only be expected and compelled to do things in their offices and to make settlements at their counters, and when they make transfers to distant points they charge reasonable fees for the service, being both legally and morally entitled to such compensation. Ever since the origin of banks the earning of exchange has been regarded as legitimate, and the banks have so charged for such services. City banks have likewise earned profits buying and selling domestic and foreign exchange; the Government charges commissions for making transfers by postal-money orders; the express companies do the same on express orders, and charge for actually transporting money. The soundness of this practice on the part of the banks is amply justified

and supported by these precedents, the principle involved being the same. This is simply a question of transportation, and every other transportation agency could be just as reasonably required to perform its service free.

These charges are made principally in remitting to cover the checks of individuals, firms, and corporations. A merchant, for instance, will pay a dealer located at some distant point by checking on his Hattiesburg bank account. The Hattiesburg bank receiving the check for collection realizes on it and sends the proceeds to the owner of the check, charging at the rate of $1.25 per thousand for the service. In the large cities practically without exception the expense is borne by the depositors. The city banks ordinarily incur little expense in handling such items; and if they do absorb any of the expense, they always are warranted in so doing by the value of business received from the depositors of such items, who, as a condition precedent, contract to carry sufficient balances to justify such service.

Wholesale merchants and manufacturers, who pay nearly all of these charges, seldom complain to their customers. They appreciate the justice of same and are glad to have the collection facilities offered by the banks and are willing to pay. Usually a merchant or manufacturer who sells a bill amounting to $1,000 can afford to pay $1.25 collection charges. Country banks are the most valuable aids the wholesale dealer and manufacturer have. They represent both actively on the ground, expedite settlements, provide all information necessary to safeguard the business. The free and easy movement of trade without congestion is due mainly to the offices performed by country banks.

Paragraph 6 of section 17 threatens to break up the exchange business as a source of revenue to country banks. It is true that the paragraph only provides that members of regional banks shall remit at par, but, it being the purpose of the law to admit and reach all banks, the provision, therefore, contemplates that all banks will be required to remit at par. That would certainly be the ultimate end, if the law is so enacted, and becomes broad enough in its scope, power and influence to accomplish general financial reform and relief. General good can not be accomplished through the law unless it reaches the people generally, through local agencies. It is, therefore, necessary to enlist local banks, and the law, to be effective and useful, must, in the end, reach all banks. It would be manifestly unfair to make comparatively few banks, forced into the system by circumstances, par all of their items, and have to compete with other banks not doing so. If regional banks do not collect items at par on all banks regardless of membership, they could only collect a small percentage of the items of member banks. The country bank members, being required to remit everything at par, and left to pay exchange charges on the great bulk of their own out of town items, would be left in a desperate situation. If member banks lose this revenue, and nonmember competitive banks are permitted to continue to enjoy same, the effect would be that nonmember country banks could cut interest rates or reduce charges otherwise, and be placed in position thereby to easily override, and permanently impair the usefulness of country banks members. This would apply to points containing two or more banks, and to all competitive districts throughout the land. Therefore, if the Government intends to force any paring at all, for the sake of the safety of the new financial system, it will ultimately have to undertake the general collection business of the country, and handle same through postmasters, or otherwise, if necessary. This provision is unjust and dangerous to the country banks from every point of consideration, and should be entirely eliminated.

Country banks can continue to control the buying and selling of exchange over their counters, and exercise their discretion as to their charges for same, but revenue from this source will cease upon the passage of the bill as now written, for the reason that the Government would make all individual checks current at par the country over. If the banks are forced to par all checks there will be no demand for exchange.

Paragraph 6 of section 17 of the proposed bill without right, warrant, or necessity carries the bill entirely beyond its province. It seeks to settle a question that is not germane to the great plan involved. What is an exchange charge, if it be not remuneration for a distinct service performed, and performed at an expense, which must vary more or less with facilities available and specific conditions involved? Therefore, how can there be either justice or consistency in this proposed parring feature that would compel the performance of substantial service without remuneration? To do so would be to destroy the inherent right of men to demand compensation for their labor and for the use of their property.

Exchange is a commodity and should remain one whose price should be fixed by its cost, plus a fair profit to the forces creating it.

Traders constitute nearly all the purchasers of exchange, and it is vitally necessary to provide exchange for them.

The higgling and bargaining or the expediences of traders alone determine whether buyer or seller should pay for exchange in transactions that must be cleared by it, and, whether actually discussed or not, it is invariably understood that the inevitable and proper cost of the transmission of funds from one party to another distant must be provided for.

The question of exchange can arise only between traders. They create and present to banks practically every exchange transaction.

It is the function of banks to pay checks on themselves over their own counter, certainly their duty is no more.

If a distant trader permits any bank's customer to pay him with a check on such a bank, wherein lies the obligation that such a bank should deliver to such distant trader the proceeds of such check in part funds at an actual net loss to the remitting bank?

It is the almost universal custom for the wholesaler to accept in payment of his accounts against retailers, the retailer's local check.

Custom makes law, and the universal acceptance of country checks has practically made them legal tender to the trade.

If these conditions relating to exchange are unjust or unsatisfactory, then let the trade that established the conditions adjust them. If it is unfair for the retailer to pay the wholesaler or manufacturer with his local check, let the wholesaler or manufacturer demand current funds of the retailer, and altogether refuse his checks.

The trade is now bearing these charges as an item of selling expense and includes them in all prices quoted.

So far as the country banks are concerned the onus certainly belongs on the trade. Traders should have the moral courage to demand and enforce a proper settlement of the exchange question; the city banker should not gratuitously or selfishly attempt to transfer the entire burden to the country banks.

The Government claims to be conducting its money-order department as a public convenience and to have its schedule of fees arranged on a basis to cover actual cost. The reports of this department show fees collected amounting to $6,537,000 for the year ending June 30, 1912, for which it transferred $680,000,000, or at the rate of $9.60 for every $1,000 transferred, against our exchange charge of $1.25 per thousand. The Hattiesburg post office transferred during the year ending June 30, 1913, $127,000, for which it received $1,264 fees, or $9.80 a thousand, or nearly eight times the Hattiesburg exchange rate. A bank is compelled to employ exchange clerks who perform the work corresponding to that of the post-office money-order clerk. Some of the House Currency Committee have expressed the idea that Federal reserve banks would permit members to charge exchange as before and absorb all exchange and collection charges. We fear that they do not appreciate the volume of this business, and if exchange rates were reduced ever so much the burden would still be too much for them. For example, one bank in Hattiesburg will remit as much money in three days as the money-order department of the Hattiesburg post office will remit in a year. It has been estimated that the regional banks will absorb losses in effecting these collections at their own cost of from $50,000,000 to $75,000,000 in addition to the expense of handling this business. Is there not grave danger as a result of such stupendous annual losses that the regional banks would soon be compelled to either demand a great reduction of the rates paid member banks for remitting or entirely discontinue the payment of exchange? Should such far-reaching arbitrary powers be given regional banks? Are not country banks justified in being afraid of this big stick in the hands of regional banks?

It would be unsound and wrong in principle to permit regional banks to receive country checks and drafts for deposit as cash, and immediately give depositors the benefit of same as cash, such items not being cash by virtue of the fact that they are only ordinary collection items, many of which are never paid and all of which require much time for collection and final liquidation; that the receiving of such items by regional banks as cash, and immediately giving depositors the benefit of same as such, would put a great and unjust burden on the regional banks which would militate seriously against the best interests of shareholders of banks not handling huge volumes of such items; that the effect would be immediately to give such depositors the benefit of such funds as cash without charge, which would be a burden on the institution and a tax on its shareholders and other depositors; that if this practice is permitted on a large scale, it will result in a tremendous fictitious, floating, and uncertain element in the business of regional banks, causing credit balances against which reserve would have to be provided and carried, thereby largely increasing reserve requirements and proportionately reducing the ability of regional banks to issue currency.

The provision vitally affects the interests of 30,000 shareholders of Mississippi banks. The Mississippi banks are now earning about $650,000 every year in these particular transactions, and they can not afford to lose the revenue. To illustrate, the entire accumulations of all the Mississippi banks, over and above dividends paid, appear to be less than $500,000 per annum. On November 16, 1910, the total surplus and undivided profits of all Mississippi banks were $7,012,000; on December 18, 1912, the entire surplus and undivided profits of all Mississippi banks were $7,937,000, making an increase for the 25 months of $925,000. It is therefore apparent that the Mississippi banks will be seriously injured and their usefulness greatly impaired if they are forced to sacrifice this revenue. The dividends now received by shareholders are barely normal.

It is of great importance that the United States 2 per cent bonds be properly supported and taken care of in the act. These bonds are selling below par at present, and the effect on the public mind is distressing. Our Government has always been in high credit, and we have for so many years accepted its standards as correct ideals to imitate and live by, that we can not afford to have Government standards lowered. To lower Government standards would be to greatly depreciate the high morale of our citizenship which has made our people great in business and in every other walk of life.

The law provides that 2 per cent bonds shall be retired after 20 years, but no contract to that effect has been proposed. In my opinion, if the Government would call in all of its outstanding 2 per cent bonds and substitute 20-year bonds for same the trouble would be cured and 2 per cent bonds would be worth par, but in the absence of a contract of this nature I am afraid 2 per cent bonds will never sell at par again. I fear they will go far below par. Any succeeding Congress could repeal any portion of the law as now proposed, and that is what is disturbing the holders of these bonds, and the holders of same ought to be protected absolutely, and the only way to do it is to issue new bonds.

Senator, our lawmakers should keep the fact always before them that nearly all the 2 per cent bonds are held by national banks, and that they were practically forced by the Government to buy them.

I fear the savings-bank feature of the bill, although it would be an advantage to the banks to have the present reserve requirements against savings deposits reduced to 5 per cent as provided in the bill. The effect of the present high reserve requirements, the same being usually 25 per cent or more, is to largely increase the cost of such deposits, thereby making such business difficult to handle at a profit. All country banks are now required to carry 15 per cent reserve, but, in addition thereto, it is necessary to carry working capital, and 25 per cent is about as little as a bank can ordinarily get along with. It would therefore be a great relief to reduce reserve requirements of savings deposits to 5 per cent, but I fear we would have more trouble with the Federal board and the Comptroller of the Currency in handling the business than we would gain benefits by the relief. In my judgment it is unwise to legislate on this particular subject. There is not much savings business done by national banks except in the country and small cities, and in most instances there is not enough such business to justify extraordinary expense and effort. Money that can be attracted as savings deposits is needed in the country communities for general business purposes, and general business can not afford to give up the funds. It would cause a great deal of trouble all over the South and West if the banks having savings departments had to segregate same and invest the money in some peculiar way out of harmony with local requirements. At present all savings moneys in country banks are used just as the other deposits are, and there are very few communities that have a surplus of money. Therefore it would be serious to enact a law that would interfere with the present use of such deposits and also to divert a part of the capital stock of banks to savings departments, to be invested in some strange and unreasonable manner. In large cities the savings business is taken care of in separate and distinct savings banks, and the law, therefore, would not reach the great savings business of the country. It would only apply substantially to country districts and very small cities where the business is, practically speaking, inconsequential, yet the funds are essential to the business life of such communities.

Every bank ought to have a savings department. All classes of people in every community ought to be encouraged to save. Children ought to be urged to commence saving early in life, and savings departments in the country banks are becoming quite numerous, but I fear they would have to be cut out largely if this law went into effect, because such deposits are very small in most communities. In a southern town of 2,000 people the savings deposits would probably not exceed $25,000 in all the banks in the town. The business is, therefore, so small that most of the banks could not afford to segregate it and incur the expense of a special separate department to administer same.

I think this question had better be let alone, as I fear it involves great danger to the numerous small communities in the country. Such communities as have a large amount of savings business can take care of same by organizing savings banks under State laws and in that manner take care of the business economically and with strict reference to just how such a business should be conducted, and inasmuch as this business has this natural and logical outlet in communities where there is enough of it for special attention, I think it would be best to eliminate the subject from the currency bill.

I have said nothing regarding the control of regional banks, as I understand the policy of the lawmakers is definitely fixed in that regard, and I have not referred to the matter of compensation to shareholders and depositors for the same reason, although I think the dividend rate on the capital stock of regional banks should be increased to 6 per cent. Most country banks are paying 4 per cent interest on time certificates of deposit and savings deposits, and this money is costing them 5.33 per cent, reserve requirements considered. We pay $4 per year for the use of $100 and can only lend $75 of the amount. While the provision to give bank depositors 40 per cent of the earnings of regional banks over and above dividends paid is very much better than the previous provision, which provided that no interest should be paid them, yet it appears to me that it would be eminently more fair that the earnings of regional banks over and above dividends paid be divided between all depositors in proportion to balances carried, Government and bank balances to be treated alike. I can not see wherein it is just for the Government to claim greater benefits in the premises than it would allow other depositors.

I think it would be perfectly safe and best to allow 50 per cent of the capital stock of regional banks to be owned by individuals, they to be limited in the amount one could own, the stock to be owned by individuals in each State in proportion to stock owned by banks in each State. This would assure a widespread distribution of the stock and no pyramiding of interests.

Referring to the exchange matter, I would suggest the entire elimination of that portion of paragraph 6 of section 17 which permits regional banks to receive checks and drafts from depositors at par, and further permits them to act as clearing houses for country items generally. Regional banks should be restricted to handling checks of other regional banks. It might possibly be well to allow regional banks to handle checks drawn by members on other members, but they should be forbidden to receive any items drawn by or against individuals, firms, or corporations.

Two per cent bonds should be put on a substantial contract basis that would shorten their maturity sufficiently to make them worth par.

The law, I think, should be silent, for the present at least, regarding the savings business.

Thanking you sincerely for your patience, I beg to remain,

Yours, very truly,

F. W. Foote, *Vice President.*

Farmers and Merchants Bank,
Forest, Miss., September 22, 1913.

Senator R. L. Owen, *Washington, D. C.*

Dear Senator Owen: As a small country banker, I have been very much interested in the Owen-Glass currency bill now pending before your honorable body and have studied the bill since it was first made public, and I heartily approve the bill as a whole; however, I see in it one objection that if enacted into law will not only take practically all of the net earnings from the country banks but will force a great many into liquidation. This objection is the handling by the regional banks collections of every kind at the sacrifice of exchange to the country bank.

For example, I quote from our books at the close of business last evening. We have earned this year on interest account, $2,770.08; on exchange account, $1,072.20; total earnings, $3,842.28, with an expense account of $2,532.43, leaving net earnings $1,309.85 on a paid capital of $20,000. You can see at a glance that should we be deprived of our exchange our investment would be anything but profitable.

We had expected to join the regional bank as soon as the bill was put in operation, but unless the bill is amended so as to forbid the regional banks handling collections we will have to remain out, and it is our opinion that if the bill becomes a law without this amendment the banks in Mississippi will not (unless forced to) go into the system.

Some of the national banks may have to remain in on account of having such large investments in United States bonds, but in our opinion the banks that are not heavily loaded with 2 per cent bonds will get out.

If the Senators want the bill to be popular with us country bankers and banks it will be wise to so amend it as to forbid regional banks handling collections of this kind.

Hoping you will see fit to use your influence in the interest of the majority (the country banks), I am,

Sincerely, W. D. COOK, *Cashier.*

ALABAMA BANKERS' ASSOCIATION,
Pell City, September 20, 1913.

Hon. ROBT. L. OWEN,
Chairman Senate Committee on Banking and Currency, Washington, D. C.

Dear Senator OWEN: Your request of September 18 received. It is difficult to explain the matter in a letter. I will do my best, but would prefer coming before the committee in order to do so in greater detail and with more clearness.

That you may properly understand our situation, Pell City is a little one-bank town in northern Alabama. Birmingham is the collection center of this territory. At least 50 other banks are tributary to Birmingham in the same sense that we are.

Our mercantile and other customers buy goods at Birmingham and other wholesale centers. They pay for these goods by their own check drawn on us and sent to their creditor. Each day these checks are presented to us for "clearing" through the mail. Banks in the collection centers each day receive from their customers and connections quite a number of these checks on us. They send them here by mail. We pay by returning to them the total of the letter, less deduction for exchange, by check on New York.

September is not one of our very active months, yet I can not do better than give you a transcript of our draft register, which shows transactions as follows:

Date.	Letters received.	Total amount.	Profit exchange.
Sept. 2	15	$6,842.59	$5.25
Sept. 3	7	1,946.17	3.80
Sept. 4	6	1,402.60	3.05
Sept. 5	5	1,320.26	2.40
Sept. 6	7	3,291.49	5.60
Sept. 8	7	2,342.25	5.25

The above represents a little less than an average week's transactions between ourselves and other banks which in the ordinary course of affairs would become members of the new system. It does not include any entries save these.

It therefore appears that our profit for that week was $25.35, which sum was paid to us by the banks of the collection centers, Birmingham, Atlanta, Nashville, Montgomery, etc. A similar profit is made by each of the 50 banks in this section of Alabama, as the record listed is fairly typical of all.

Now, under section 18 of the bill, at page 32, line 13, et seq., it is provided that every Federal reserve bank must receive on deposit at "par" and "without charge for collection" checks from any of its depositors on any of its depositors, etc.

The First National Bank of Pell City hopes to be a member of the regional bank. The banks of these collection centers will certainly be members unless the system is to fail for lack of membership. Let us presume that New Orleans is the site for our regional bank. What follows?

Instead of sending checks on us to Pell City for payment in New York draft, less exchange, they will mail these checks to the regional bank, get credit for full amount of the total, the bill says so, and the regional bank must then make a corresponding entry to our debit on our balance. In other words, our exchange profit is gone.

Where will the profit go? Its destination is not open to question. Business men, individuals, firms, and corporations, will not get it, as they do not now pay the exchange charge. If they did get the benefit I would not object so strenuously. But the gain will go direct into the profits of the collection center banks. If these banks were just eking out a miserable existence, or if country banks were making profits unduly large, I would not object again. But the reverse of this is true. Few country banks are making unjust profits. They are making only reasonable profits, and the fact is well known that bank salaries in the country are small. Collection center banks are making as much and more than we country banks, and their salaries are much larger. I have heard it said on authority that with this section unchanged

one St. Louis bank will add $200,000 to its annual net profit and that one Birmingham bank will net $50,000 more than they now do. Neither need or deserve this gain. Country banks do need and deserve present exchange profits.

From the discussion I have heard about this section, in bank meetings, etc., the collection centers are just putting one across on us. This is the admitted object of the section and its undisputed result in operation. I defy anybody to assert the contrary. I also believe that the undisclosed object of the savings section is to prevent country banks from accepting such deposits and throwing them into the big towns. Banking legislation has never been drawn in the interests of the country, its banks or its people, yet politicians assert that we are the bulwark of the Nation. The time has come when we should receive at least equal consideration. It is our money that runs the national business machine. Birmingham to-day does not carry enough available cash to pay its country bank depositors, nor does Cincinnati, or St. Louis, or Boston, or Chicago, or New York, to go up the scale. To paraphrase the poet: "Money is gathered by unseen degrees, as brooks make rivers; rivers run to seas." We are the brooks, and where would the rivers be without us? Dry as a bone, literally.

Senator Owen, if I understand the meaning of language and its effect upon present methods of business, I am right in the position taken. With those two sections left unchanged in the bill, I make the prediction that when enacted into law, it will be a tinkling brass and sounding cymbal, as empty as a bass drum. What is the use of running any risk on points not germane to the measure? Why not start the system with as few uncertainties as possible, caring for exchange and savings matters by subsequent and separate legislation?

I thank you for the opportunity you have given me to make this explanation, and if my presence is wanted before the committee I will be glad to come on the first train.

Trusting you will use your large talents and high office in the interests of the country banker, and with kind personal regards, I remain,

Very respectfully,

McLane Tilton, Jr.,
Secretary Alabama Bankers' Association.

The First National Bank of Napa,
Napa, Cal., September 13, 1913.

Hon. Robert L. Owen,
United States Senate, Washington, D. C.

Dear Sir: We are writing to express this bank's opinion of the pending banking and currency bill. We assume that you are interested in knowing the position of the banks, and particularly of the country banks, concerning this bill, which is now before the Senate.

As a preliminary word we will say that we have not been asked to write this by any central reserve bank or by any other bank. It expresses merely our own ideas of the situation as we have studied it.

We have been connected with all the various forms of banks and have had experience with the private copartnership system, State commercial banks, savings and loan corporations, and national banks during the 30 years and more that we have been in the business. Of all these systems, the national-banking system has been our first choice, and we have always been strong advocates of Federal supervision and control.

Notwithstanding this, after a careful study of the bill, we feel that if we are to be forced into a central reserve organization, in which we have little or no representation, and whether or not we approve of its management and conditions—if we shall be compelled to deposit our funds with such an institution without interest while the Government shall receive interest—and if we shall be forced to place a portion of our capital in such an investment, whether or not we deem the benefits and returns to be satisfactory, then, we say, our people would probably elect to leave the national-banking system before we would be forced to subscribe to and support such a plan.

This probably is of little interest to you as to what we might do, but if our views represent those of any large portion of the country banks (as we believe they do), it would seem that those in charge of the administration measure should stop a moment and consider the action which is at present apparently determined concerning such legislation.

Asking, therefore, your kind consideration of this statement, we are,

Very truly, yours,

H. P. Goodman, *President.*
J. A. McClelland, *Vice President.*
E. L. Bickford, *Cashier.*

FIRST NATIONAL BANK,
Meridian, Miss., September 18, 1913.

Hon. ROBERT L. OWEN,
Chairman Committee on Banking and Currency, United States Senate, Washington, D. C.

MY DEAR SIR: I have followed with intense interest and anxiety the proceedings of your honorable body with reference to the pending currency bill as disclosed by the daily papers and such journals as come to my desk, and, so far as I can judge, but little is known of the attitude of the country banker toward the proposed bill. He has had no representation on such committees as may have appeared before you from time to time, and, so far as I know, but little effort has been made to ascertain his views. The number of country banks in the aggregate make up quite a total, and the distribution of the stock of such banks is widely scattered among the plain, hardworking people of their respective communities. There are some serious objections to the bill, which are held in common by the city and country banks, but a tremendous mistake will be made if you proceed on the assumption that it will operate alike for all banks. There are some objections common to all of us, city and country banks alike; such, for instance, as the feature requiring contribution of capital and deposits for the regional banks and lack of provision for representation in the administration of our own money. Many of us will not dare to part with so large a per cent of our means, and for which we are directly responsible to our own people, and intrust this money to any board or body in the selection of which we have no voice; and, further, with no provision for indemnity to us for the proper use of our funds or for its ultimate return to us. These objections, I say, are common to all of us.

The most serious objection, however, of the country banks is one in which the city banks have but little or no direct interest. I refer to the section of the bill which contemplates the abolition of exchange charges on country checks handled through the regional banks. We have in this State about 30 national banks as against some 300 State banks, and the latter, of course, would not be affected by this provision of the bill. The item of exchange forms so large a part of the revenue of the country bank that any national bank in this State would be seriously hampered in competition with the State banks, and this of itself would impel a surrender of national charters. Moreover, the great preponderance of State banks argues their peculiar adaptability to the needs of the people of an agricultural region as contrasted with the limitations imposed upon national banks. I believe it would be entirely proper to have the bill provide for a transfer of funds at par as between the regional banks themselves, but the law as now drawn would necessitate the employment of a vast army of clerks, how many no one could conjecture, who would be charged with the duty of handling the checks of the entire country, and since no charge is to be made for exchange or collection, you will readily see how enormously the expense of the administration of such regional banks would be increased by the employment of this vast array of clerical help. The benefit would be wholly in the interest of the great merchants and manufacturers of our large cities and entirely at the expense of the rural districts. The charge for transferring funds or credits from one section of the country to another is an entirely equitable and proper charge, since it entails upon the banks considerable expense and responsibility, and such charges should be left to the discretion of the banks directly interested. In my opinion, the regulation or abolition of exchange charges on country checks has no proper place in the national currency bill. Unless this feature of the bill is eliminated, it will, in my opinion, force more country national banks out of the system than all other objections combined. Certainly there would be not the slightest incentive for any State institution to enter the system.

I earnestly request of you to give this feature of the bill your careful consideration.

Yours, very truly,

EDWIN MCMORRIES, *President.*

The CHAIRMAN. The Chair will submit to the record a letter from William A. Linn, president of the People's National Bank of Hackensack, N. J., an institution with over three millions of resources, opposing the savings-bank section and giving reasons to justify his opposition, to which I call the special attention of the committee.

(The letter referred to is as follows:)

No. 7799.

THE PEOPLE'S NATIONAL BANK,
Hackensack, N. J., September 19, 1913.

Hon. ROBERT L. OWEN,
Senate Chamber, Washington, D. C.

DEAR SIR: I bespeak your assistance to secure the striking out of section 27 of the proposed banking and currency bill—the section concerning savings departments in national banks. This section has no connection whatever with the general revision of our banking laws, and its enactment would simply cause unnecessary disturbance in the business of national banks throughout the country. Its elimination, therefore, would not affect the object set forth in the bill itself.

Currency legislation is either constructive or remedial. This section is not constructive, because thousands of national banks all over the country have been for many years successfully conducting savings departments, and they will continue to do so if this legislation is omitted. It is not remedial, because no evils have manifested themselves in the savings-bank business conducted by national banks. The report of the Comptroller of the Currency, under the call of April 4, 1913, showed that of the 7,440 national banks in the United States 3,353 conducted savings departments with savings deposits amounting to $810,975,367. There should certainly be some specific reason for disarranging all this banking business as would be done by the adoption of section 27 referred to.

This effort to upset and curtail the savings business of national banks is traceable directly to interests representing the old-line savings banks throughout the country. The secretary of the savings-bank section of the American Bankers' Association wrote to Chairman Glass on August 6, 1913, commending the plan to incorporate such an amendment as section 27 in the currency bill, and saying: "May I venture to suggest that in drafting this amendment some special protection should be afforded the savings depositors? I would not advocate a sweeping segregation law, but believe that if your amendment should provide that the savings deposits in national banks shall be invested according to the law relative to the investment of savings deposits in the State in which each national bank is located the best interests of all would be conserved." The old-line savings bank interests have been for many years trying to bring about such a segregation of savings accounts in national banks as this section provides, but they have been fairly met at all points and have always been defeated, as in their efforts before the American Bankers' Association. I feel that their jealousy in the matter is ill considered. They fought vigorously the scheme for postal savings banks, but results have shown that these new savings deposits have not diminished the deposits of the old-line banks.

The claim that "some special protection should be offered the savings depositors in national banks" does not bear investigation. In every discussion of this subject it has been easy to point out that a national bank, with its capital and surplus and double liability of stockholders, offers to its savings depositors a secutiry which is not afforded by a savings bank which has no capital and which has no surplus until a surplus is earned. In a comparison I had occasion to make a few years ago, I found that the capital and surplus of the national banks of New Jersey represented 35 per cent of the deposits, without including the stockholders liability, while the surplus of the savings banks of New Jersey equaled only 7.8 per cent of their deposits. It was doubtless this weakness of the old-line savings banks which caused their investments to be limited to the most conservative securities.

While the securities designated for savings bank investments may be considered as nearly absolutely safe, as regards final payment, as any securities may be, they are not liquid assets, and in time of financial disturbance they can not be sold quickly without a loss. During the last year the price of such securities has shown a marked decline, and this decline is often sufficient to wipe out the surplus of savings banks if they were required to write down their values to the market rate of the day. It is due to the fact that these securities are not a quick asset that savings banks have been given the privilege of taking 30, 60 or 90 days in which to honor drafts upon them by their depositors in times of financial stress.

A national bank, as in our case, treats all its depositors alike, savings and commercial. We have no clause permitting us to defer the honoring of any checks presented at our window. We invest all our funds without any segregation and it is our large investments in commercial paper and short-term securities which give us at all times liquid assets to meet any demands made upon us. During the panic of 1907 we not only met

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 17

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1918

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES' SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman*.

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

the demand of all our depositors without question or without delay, but we made loans to some of them whose funds were tied up in New York City savings banks, taking their pass books on those banks as security. It will be a most serious matter to require the national banks of the country which have made investments of savings funds on commercial lines to liquidate these investments and reinvest in some restricted list of securities; $800,000,000 is a big sum to monkey with. In discussing this subject before the New Jersey Bankers' convention two years ago, President James, of the Easton (Pa.) Trust Co. (referring to the savings investments in Pennsylvania outside of the requirements of the savings-bank law) said: "Imagine $350,000,000 taken from the ordinary channels of trade and all the securities or loans represented by that $350,000,000 converted and then replaced in United States securities netting 2 per cent and somewhat upwards, or in State bonds, or in municipal bonds now netting 4 per cent or less, or in bonds and mortgages, and fancy the condition that the Keystone State banks and people will have fallen upon. Business would shaken, credit must be withdrawn, wheels must be stopped—interest rates will bepress the business borrower."

opThe seriousness of this question can not be overlooked.

The national banks have done a great work in encouraging savings by the people and in providing means for such savings where they do not otherwise exist. In the State of New Jersey there are old-line savings institutions in only 18 cities and towns, while there are in the State national banks in 148 cities and towns, all of which do or can provide savings facilities. There is no old-line savings bank in Hackensack, and none nearer than Paterson or Jersey City.

We bespeak your careful consideration of this subject and earnestly hope that you will use your influence to have the objectionable section stricken from the bill.

Very truly, yours,

W. A. Linn, *President*.

(Thereupon, at 5.20 o'clock p. m. the committee adjourned until Monday, September 29, 1913, at 10.30 o'clock a. m.)

MONDAY, SEPTEMBER 29, 1913.

Committee on Banking and Currency,
United States Senate,
Washington, D. C.

The committee assembled at 10.30 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed. Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

Senator Nelson. While we are waiting, Mr. Chairman, I have a letter which I wish to read and insert in the record. I would be glad to have you gentlemen listen to it, and I want to say that what this letter states is borne out practically word for word in the treatise by Warburg on Discounts, if you gentlemen have read it.

The Chairman. Yes; read it into the record.

Senator Nelson. It is in reply to Mr. Untermyer's statement. It reads:

I learn from the daily press that on the 22d instant Samuel Untermyer gave the Senate Banking Committee his ideas on currency reform and that he criticized adversely the provisions of the administration currency bill allowing banks to deal in acceptance given for the exportation or importation of goods.

The United States uses annually 880,000,000 pounds of coffee. The value of the coffee imports to the United States is at present prices about $117,000,000. Every dollar of this vast sum must be financed through London bankers and payable in London.

The only way coffee can be bought is on 90-day acceptances drawn on London bankers. It can not be imported for cash.

We are importers of green coffee. The minimum quantity that can be bought in one shipment is 250 bags. We are obliged to purchase a letter of credit from some banker in New Orleans or New York for each shipment and pay one half

of 1 per cent for it. On the strength of this letter of credit bills are accepted in London for the amount of the purchase. Funds must be in the hands of the bankers who issue the letter of credit in time to be remitted and reach London at the time the acceptance is due.

Undoubtedly vast importations in addition to coffee are financed the same way and furnish a fabulous amount of profitable business to the London banks.

It is really ridiculous that this the richest country on God's green earth should be compelled to do business that way. Every dollar of the imports to the country should be financed by the banks of this country, and our banking law should not only permit it but encourage it. If the law now before the Senate committee will not do this, it should be amended so that it will.

The vast financial machinery now in operation which furnishes such an immense volume of business to London can not be superseded in a day, but a start should be made now. It is to be hoped that Congress will give this matter the serious consideration which its importance deserves.

It is signed by T. H. Green, of Green & De Laittre Co., importers, manufacturers, wholesale grocers, and coffee roasters, of Minneapolis, Minn. As I said before, this statement is exactly borne out in this treatise of Warburg on Discounts.

The CHAIRMAN. I think he has misunderstood Mr. Untermyer.

Senator NELSON. Well, I do not know about that.

Senator HOLLIS. As I understand it, the branch banks that are contemplated will take care of this sort of thing.

The CHAIRMAN. Yes. However, the Federal reserve banks and branches could do this very business. More than that, the national banks having a million of capital can do the same thing.

Senator NELSON. The provision of the bill referred to is in section 15, first part.

The CHAIRMAN. What is that?

Senator NELSON. This is the clause to which objection is made. It is on page 27, and reads:

That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

Senator HOLLIS. Mr. Untermyer objected to going into the market to compete with other banks.

Senator NELSON. Yes.

Senator HOLLIS. I do not understand that the regional banks have got to do this. These member banks can do that.

Senator NELSON. No; this is the regional bank.

Senator HOLLIS. Yes, I know; but I do not think it is necessary to do it under that. I think these branch banks can do it perfectly well.

Senator NELSON. The trouble is that in the foreign countries the ordinary banks would not have such large credit accounts as the reserve banks.

The CHAIRMAN. Senator, I think you refer to the first paragraph, on page 26, that any national bank may accept bills of exchange and drafts having not more than six months to run.

Senator NELSON. Yes; but this other provision is important. In transactions with foreign countries I think these reserve banks would have a higher standing abroad—their bills would stand higher than the member banks, being larger and being national institutions.

The CHAIRMAN. Yes; I think that is so. What is the exact point he was making there?

Senator NELSON. The objection, as I understood it, from Mr. Untermyer and others was against this provision, section 15, first paragraph. That is the way I understood him here the other day; but is he not coming back here to-day?

The CHAIRMAN. Yes; he will be back here this morning. He wanted to enlarge this paragraph, did he not?

Senator NELSON. I am not clear about it. My idea was he thought it interfered with other banks.

The CHAIRMAN. Oh, no; I do not think he feels that way.

Senator NELSON. Well, when he comes here we will find out.

The CHAIRMAN. Mr. McRea, who was for many years in Congress, is here this morning. He was just coming through to attend a bankers' convention in Boston. I have consulted with the committee and requested him to speak to the committee a minute with regard to his views about the bill, he now being in the banking business.

Mr. McRea, we will be glad to hear your opinion about this bill and what the view of the banks in your neighborhood may be with regard to it, as far as you happen to know. Will you give to the stenographer your present position in banking? You have charge of a bank, as I understand.

STATEMENT OF MR. THOMAS C. M'RAE, PRESIDENT OF THE BANK OF PRESCOTT, ARK.

Mr. McRAE. I am president of a bank at Prescott. I have been president of the Arkansas Bankers' Association and am now delegate and vice president from Arkansas for the American Bankers' Association.

I did not come here, Mr. Chairman, expecting to make a statement to the committee about this bill, but I have given it some consideration from the standpoint of the country banks—the small banks.

Senator NELSON. The State banks?

Mr. McRAE. The State banks. I think that it is a good bill. I would not want to commit myself to all the details of the bill, but I believe that the principles upon which it is based, the fundamentals of the bill, are correct, and I believe it will be helpful to the banking interests.

I have, as some of you know, been in political life in the past. For the past 10 years I have been in the banking business and I am sorry to see any distrust of the banking interests by the legislators of the country, and vice versa of the legislators by the banking interests. I would like to see a better understanding between the two. Most of this distrust is not well founded. I believe that this bill will be of great help to our section of the country, and I believe a large majority of the small bankers who have carefully considered it, National and State, in my State and the surrounding States in which I have mixed with the bankers, favor the bill. I believe with the restrictions upon national banks which will be removed by it, that it will carry into the national system a great many State banks, unless the regulations for the transfer are too rigid. Whether it does or not, it will help the banking business, I think, in the southwestern part of our country.

The CHAIRMAN. We are glad to have an expression of opinion. We have not had many country bankers appearing before the committee; many interior bankers.

Mr. McRAE. Mr. Chairman, they have not been invited, and, if they had been, it would be inconvenient for many of them to come. In fact, I would not have come except I was on my way to the meeting of the American Bankers' Association and I wanted to see some of my friends here, and so I came here this morning—not to talk, but to hear others upon the bill—to hear what objections others could urge to it and, at your suggestion and request, I am here simply to say in my individual capacity I think the proposed legislation is important and I would like to see it enacted. I believe it will be helpful to banking and to business generally.

The CHAIRMAN. Do any members of the committee wish to ask any questions of Mr. McRae?

Senator HITCHCOCK. Mr. McRae, you are in the banking business in Arkansas?

Mr. McRAE. Yes, sir.

Senator HITCHCOCK. And what is the size of your bank?

Mr. McRAE. $75,000 capital and $75,000 surplus.

Senator HITCHCOCK. So that under the terms of the bill you would be required to part with $17,000 of capital?

Mr. McRAE. Yes; I understand that—$7,500.

Senator HITCHCOCK. You said $175,000 capital?

Mr. McRAE. No; $75,000, and $75,000 surplus.

Senator HITCHCOCK. Oh, you would be required to part with $7,500, then.

Mr. McRAE. Yes.

Senator HITCHCOCK. And what do your deposits amount to?

Mr. McRAE. Now about $300,000. They have been as high as $450,000. They run from $250,000 to $350,000 generally.

Senator HITCHCOCK. Are you in the habit of rediscounting notes?

Mr. McRAE. We rediscount some usually from the 1st of July until the 1st of November. We have this year. If the farmers are ready to sell the cotton on a good market like the present cotton market, we pay our notes at maturity; but if they want to hold the cotton, we generally help them, and have to renew or make further rediscounts.

Senator HITCHCOCK. What class of notes do you rediscount?

Mr. McRAE. We usually use the largest size loans—the commercial and industrial concerns' notes. Most of our loans, however, are to the farmers, and are small.

Senator HITCHCOCK. Those notes you rediscount are notes that are to be paid at maturity?

Mr. McRAE. Yes, sir; usually; not always.

Senator HITCHCOCK. Are they paid to the banks to whom you rediscount them?

Mr. McRAE. No; not always; sometimes. It depends on whether they mature before the maturity of our obligation.

Senator HITCHCOCK. If they mature after the maturity of your obligations, then they are returned to you?

Mr. McRAE. Returned to us.

Senator HITCHCOCK. Then, really, it is a loan you make and these are deposited as collateral security?

Mr. McRae. Yes. We call it rediscounting, but usually it is a loan secured with notes payable to us as collateral. That is the customary method in our section.

Senator Hitchcock. And where do you find the best place to market your rediscounts now?

Mr. McRae. I have never sought but one, St. Louis. We probably could get a little better rate in New York, but we have always been able to get what we wanted in St. Louis at a fair rate of interest.

Senator Hitchcock. If you were unable to get what you wanted in St. Louis, you would go to New York, Chicago, or some other point?

Mr. McRae. I do not know what I would do then, but I have always been able to get what I wanted in St. Louis.

Senator Hitchcock. You now have a choice; you are not restricted?

Mr. McRae. Oh, no. We have never been denied what we asked for.

Senator Hitchcock. Where you have correspondents, I suppose, you would be able to get a reasonable advance?

Mr. McRae. Yes; I think so.

Senator Hitchcock. Have you ever thought of the fact that under the terms of this bill you would practically be restricted to one place and have no choice at all?

Mr. McRae. I understand that, but I could use the same collateral there at that place that I use now, and perhaps at a better rate of interest.

Senator Hitchcock. Suppose you presented your collateral at St. Louis, now, and were refused; you would have the privilege of going to New York or some other point.

Mr. McRae. Yes.

Senator Hitchcock. But if you were to present your collateral at your regional reserve bank and were refused, what would you do?

Mr. McRae. Well, I suppose I would have to do without the money.

The Chairman. Do you understand from this bill that you would be precluded from dealing with any other correspondent in the country?

Mr. McRae. Oh, no. But I mean if they would decline to allow us to rediscount, I could not get the money there and would have to get it elsewhere.

Senator Hitchcock. Under the terms of this bill you have all of the legal reserve which you are required to keep on deposit with the regional reserve banks unless it is in your vaults.

Mr. McRae. Yes.

Senator Hitchcock. So that you would have no claim upon any reserve agents.

Mr. McRae. I would have no claim, but I still might have credit; and if they had money to lend and I had good paper to offer them and was willing to pay the interest, I take it they would make the discount or loan.

Senator Hitchcock. You understand that the reserve agents that now exist in the central reserve cities and in the 48 reserve cities will be required to turn over all the legal reserves to the regional banks?

Mr. McRae. Yes.

Senator HITCHCOCK. So that they will no longer have facilities to make advances to country banks that they have now. Even if they have the disposition, they will not have the facilities.

Mr. McRAE. I do not assume that that is correct—that after they have provided for the reserve they would not have anything else to loan. I think they will equally as much under this bill as now.

Senator HITCHCOCK. As it is now, you keep your reserve, to a considerable extent, in St. Louis, and the St. Louis bank is under obligations to you when the season arrives when you need money?

Mr. McRAE. We keep reserves in three places—New York, Little Rock, and St. Louis.

Senator HITCHCOCK. You not only have St. Louis, but you have other centers where your correspondent bank is under a business obligation to meet your reasonable demands?

Mr. McRAE. Yes.

Senator HITCHCOCK. And under the terms of this bill you would take your reserve out of the St. Louis bank, out of the Little Rock bank, and out of the New York bank and put it into the regional reserve bank?

Mr. McRAE. Yes.

Senator HITCHCOCK. You may have some surplus funds you can put elsewhere, but you would not have any reserve to put elsewhere.

Mr. McRAE. I understand. Most good banks have more cash than the legal reserve.

Senator HITCHCOCK. And what I am asking is whether you have considered the situation that would result if the individual bank goes to the reserve bank under those circumstances and is refused the discount?

Mr. McRAE. Well, I assume if we take the right kind of paper we will not be refused.

The CHAIRMAN. You mean you have other amounts above the legal reserve you have on hand—you have extra money besides the legal reserve with your correspondents?

Mr. McRAE. Oh, yes; the most of the time, not all.

Senator HITCHCOCK. How much extra money do you keep above the reserve with your correspondents?

Mr. McRAE. Oh, sometimes we have three times what is required; sometimes, in hard times, we get very close to what is required.

Senator NELSON. Let me ask you a question there in this connection. Does your State law require you to keep within a certain limit?

Mr. McRAE. Yes.

Senator NELSON. How much?

Mr. McRAE. The same as the national bank.

Senator POMERENE. You mean the same as the country bank—15 per cent?

Mr. McRAE. Fifteen per cent; yes.

Senator NELSON. And can you keep it, like the national banks, part of it in your own vault and part with the reserve banks?

Mr. McRAE. Yes, sir. Under our law—our law has just gone into effect; we are the last State, I believe, to pass a State law—we have the same requirements as to the amount of the reserve as the national banks. It may be kept part in the vault and part with reserve agents.

Senator NELSON. Six per cent in the vault and 9 per cent with the reserve agents?

Mr. McRae. Yes.

Senator Hitchcock. Now, I want to ask you a question, Mr. McRae. As an individual banker in a small town, whether you think in this legislation in creating these 12 regional reserve banks we should not put language in the bill which will make it obligatory upon the regional reserve banks to treat member banks of equal size and belonging to the same class and in the same town with equal consideration?

Mr. McRae. I think so. That ought to be done.

Senator Hitchcock. I should add to my question, also, if it furnishes for discount the same class of paper.

Mr. McRae. Yes. Certainly that ought to be required, unless you are willing to trust those who administer the law to do that. I assume that will be done.

Senator Hitchcock. I want to know if you are willing, as a banker, to put your hand in the lion's mouth——

The Chairman. Is not that rather a leading question on the part of the Senator from Nebraska?

Senator Hitchcock. I am going to take a chance on it. You are now an independent banker; you can go to St. Louis, you can go to Little Rock, or you can go to Chicago or New York, and you can present your paper for discount. And, as an inducement for that discount, you have a reserve which you can place with that bank or with any of those banks, as you please. Now you are pretty well assured of good treatment at one place or the other, because you have the power to control it. Do you want all that wiped out, to have all your eggs put in one basket and no assurance that your paper will be discounted when you present it?

Mr. McRae. Your question assumes that the place where I can now present my paper will have plenty of money to accommodate me. This was not true in 1907. The fundamental principle of this bill is to increase the opportunity to get currency when it is wanted. If it were always true that the country bank, with good paper, could go to its correspondent, and get all the currency it wanted, there would be no necessity for this bill. But that is not true. I might go with perfectly good paper and my correspondent, perhaps, might not have the money; conditions were such he could not accommodate me. So I assume if there is anything in this bill at all, it is to make it easy to increase the volume of currency based upon credit.

Senator Hitchcock. That is true; there is no question about that, but that is not the question I am putting to you.

Mr. McRae. And I am assuming the regional reserve in which my bank might be located would have funds to lend and it would be as easy to get from them as it would be from my correspondent.

Senator Hitchcock. There is no question about that, but that is not the question I am asking. The question I am asking you is this: Whether you, as an individual banker, would want to leave the discretion with the board as to whether they would discount your paper or not in time of need.

Mr. McRae. I think there ought not to be any question about the treatment of bankers situated in similar conditions as to the paper offered for rediscount.

Senator Hitchcock. Would you want the possibility under this legislation that the management of the regional bank might refuse

you a discount and grant a discount to your competitor across the street?

Mr. McRae. No; I would not want that.

Senator Hitchcock. So you think there ought to be some guaranty of equal treatment, do you?

Mr. McRae. Yes. They ought to be fair and impartial—act alike.

Senator Hitchcock. Have you any objection to saying (of course you need not answer if you have) to what extent of the $300,000 deposits you would require discounts during the year?

Mr. McRae. I did not hear your question.

Senator Hitchcock. To what extent do you require discounts during the year, at any one time with, say, $300,000 of deposits?

Mr. McRae. I think the largest discount we have ever made or ever had to make, in any one season, was $75,000.

The Chairman. Just the amount of your capital. That happens to be the amount of your capital?

Mr. McRae. Yes.

Senator Nelson. I want to call your attention to this fact: This transaction with the bank of St. Louis is not a technical discount of the farmer's note; it is a discount of your own note. You discount your note, the note of your bank, and you put up the farmer's note as collateral.

Mr. McRae. Well, we put up some notes that are farmers' notes, and also industrial and commercial paper.

Senator Hitchcock. I was coming to that later on. I want to see if we can arrive at any basis where we can say that a certain rediscount is legitimately and probably necessary. This witness, Mr. McRae, says he requires a discount amounting to at one time as high as $75,000.

Mr. McRae. It runs from $25,000 to $75,000.

Senator Hitchcock. The maximum has been $75,000?

Mr. McRae. Yes; I think we have never rediscounted beyond $75,000.

Senator Hitchcock. I will say I have in mind a provision requiring that the reserve bank should always be ready to discount the good notes of the member banks to the extent, say, of its capital, or some other thing, so that it could have something to depend on and not something altogether discretionary and in the power of the board of directors.

Senator Pomerene. Provided it always had the funds.

Senator Hitchcock. That is always provided. Here we have a strong bank. It has $75,000 capital, $75,000 surplus, and $300,000 deposits, which is a strong bank, and its maximum of rediscount, apparently, is the amount of its capital. My judgment is it ought not to be compelled to go to a bank with its hat in its hand and say, "Will you please help me," but it ought to be able to go there and put down the paper and demand the rediscount as a matter of right.

Senator Pomerene. It could not do that anyhow.

Senator Hitchcock. If the bank says no, it can say, "Very well, I will take out my reserve," but it can not say that to the regional reserve bank; its reserve is impounded, tied up there.

Senator Pomerene. It may not be able to take out the reserve, as in 1907.

Senator HITCHCOCK. I want to come to another point Senator Nelson raises.

Senator NELSON. In connection with that, let me say that on page 24 of this bill you will find the rediscount provided for there is a rediscount of this kind of commercial paper which will bear the indorsement of the bank. It will not be a rediscount of the note of the banker, but it will be a discount of this commercial paper and bear its indorsement.

Senator HITCHCOCK. I think, Senator, there is a provision of the bill authorizing the regional reserve banks to make a loan upon the deposits of security. That is my recollection.

The CHAIRMAN. That is provided for in the bill.

Mr. McRAE. It ought to be, if it is not; but it is practically the same thing. Most banks now prefer to take your note and take your paper as collateral security.

Senator HITCHCOCK. No, Mr. McRae, it is really not the same thing if the currency is based upon the paper which you discount.

Mr. McRAE. I do not mean it is the same thing, but so far as the local banks' liability is concerned it is the same thing. The rediscount would be preferable to the borrower.

Senator HITCHCOCK. The theory on which this bill is constructed is that the notes are rediscounted by the regional bank, and as they are retired the currency which was issued on them shall retire with them. So it is not the same thing as if you make a loan which may or may not be paid. That is not the same basis for the issue of currency.

Mr. McRAE. The local bank is obligated the same. That is, in the one case it pledges its own note with these notes as collateral, on which it is indorser, and in the other case it pledges these notes on which it is also an indorser.

Senator HITCHCOCK. Do you always pay the obligations at maturity, or do you sometimes renew them?

Mr. McRAE. I do not recall to have ever had to renew them, though we may have renewed once or twice.

Senator HITCHCOCK. Suppose this bill went into effect and you were only permitted to rediscount notes having a maturity of 90 days with a bank; you would not be able to rediscount the amount that you would require under those terms?

Mr. McRAE. Oh, yes.

Senator HITCHCOCK. You have 90-day paper?

Mr. McRAE. We have some 90-day paper, but, as I understand this bill, it does not have to be 90-day paper, but paper that matures in 90 days.

Senator HITCHCOCK. Yes; paper that matures in 90 days and be paid at maturity.

Mr. McRAE. And be paid at maturity.

Senator NELSON. What is the ordinary length of time of your farmers' paper?

Mr. McRAE. Our farmers' paper is generally from three to nine months, but we do not usually have to use that paper for rediscount until June or July.

The CHAIRMAN. So that it comes within the three months maturity?

Mr. McRAE. Yes. I ought to say, however, that is not the rule in my country. Our bank is operated a little differently from most

banks. We do not make large cotton loans, nor do we carry large cotton accounts as many do. The farmers pay us early in the fall and we have a surplus of cash from the 1st of November to the 1st of March. Then they begin to borrow again, and this continues through the summer. In July the public funds belonging to the State is usually withdrawn from the banks and put in State vaults.

Senator NELSON. Do they not deposit that money in the bank?

Mr. McRAE. Heretofore they have been keeping it locked up in a vault. The purpose of this bill is to require public funds of the United States to be kept in circulation, and it will set a good example to States, counties, and municipalities that will be worth a great deal to the business of the country. You will take money the United States usually locks up in the vaults and put it in circulation.

The CHAIRMAN. You regard the impounding of that money as dangerous?

Mr. McRAE. I do.

Senator NELSON. We deposit the money in our State with the banks and they are required to give bond.

Senator POMERENE. We put it in the banks in our State now, and we put it out by competitive bid.

Senator NELSON. Our State money is drawing an average of about 3.6 per cent.

Mr. McRAE. To illustrate what I mean, in Arkansas on the 10th of July we take out about $2,000,000, and have been heretofore putting it in the safe and keeping it until October—a period when it is most needed.

Senator BRISTOW. You say you have a bankers' organization in the State of Arkansas?

Mr. McRAE. Yes.

Senator BRISTOW. Do you have it organized into groups?

Mr. McRAE. Yes.

Senator BRISTOW. How many groups have you in your State?

Mr. McRAE. Seven.

Senator BRISTOW. And they have their meetings by groups, do they?

Mr. McRAE. Yes; and they have an annual association of all the bankers, following the meeting of the groups. We usually meet in the spring.

Senator BRISTOW. Suppose a provision was made whereby the groups of banks could go direct to the Federal board or the Comptroller of the Currency, when occasion required it, and get this additional currency upon their assets direct without the intervening of this regional bank; would you see any objection to such an arrangement as that, if it could be worked out?

Mr. McRAE. Well, if it could be worked out from a practical standpoint, I do not know that I can see any objection. But I do not want to be suggesting any details for the bill. I think you gentlemen here can work those things out. There are some changes that ought to be made, but they will just as readily occur to you if I did not suggest them, and so I would not like to go into the question of suggesting changes. But it ought to be so that any bank with good collateral could go and get what it wants, when it needs it, and the money of the people ought to be fairly distributed throughout the country and put where it can be used.

Senator BRISTOW. As I understand, then, and I think probably we all are in accord on that, the primary object to be accomplished is that in times of necessity a bank can have a place to go to get currency on the security it presents and there will be no doubt about it, so that a crisis such as we had in 1907 could not occur again.

Mr. MCRAE. Yes.

Senator BRISTOW. The way to bring that about, of course, is a matter upon which there is some difference of opinion. Some are contending that the organization of these central reserve banks is concentrating too much power in the hands of a few individuals of the banking interests of our country, and that criticism of the bill has led me to ask one or two of the witnesses that have appeared before us if we could utilize these banks you have in the organizations so as to make the opportunity for concentration or control very much less than it would be under the present arrangement—whether that would be practicable. And that was what led me to ask the question.

Mr. MCRAE. I would not want to commit myself, because I do not know that the group organizations are well enough organized to deal with business features. Of course, if the bill provided for that, they could be so organized.

Senator BRISTOW. I was interested in a suggestion you made that the deposits of your reserve agents, or with your correspondents, was very large—more than your legal-reserve requirements. Do you find that it is necessary, in the conduct of your business, to keep more money with your correspondents than your legal reserve requirements?

Mr. MCRAE. Well, I do not know that it is necessary, but we have always felt a little safer if we had more money than the law required us to have, and we try to keep more money if we can do so and at the same time meet the legitimate demands of our customers. We try to take care of our customers, but do not lend except for legitimate business.

Senator BRISTOW. How much of cash do you carry on hand in your vaults; that is, what percentage of the deposits, as a rule?

Mr. MCRAE. We carry about $15,000 or $20,000 in our vaults at the present time. I had a letter this morning from the cashier of our bank, and he said the cash reserve is about $80,000.

Senator BRISTOW. I mean the cash on hand. You carry about $20,000 in your vaults?

Mr. MCRAE. Hardly that; from ten to twenty thousand. We do not carry any more in the vaults than is required.

Senator BRISTOW. With $300,000 of deposits, do you feel that $10,000 or $15,000 is all the money it is necessary to have on hand in order to meet the ordinary requirements?

Mr. MCRAE. I do not know that we have ever allowed that to run as low as $10,000 when our deposits were $300,000, but we keep the larger part of our reserve that we are not required to keep with our correspondents in New York, Chicago, St. Louis, Little Rock, and sometimes in Chicago.

Senator POMERENE. When you spoke of keeping $10,000 you meant that you had that amount in your vaults; you also have some reserve elsewhere?

Mr. MCRAE. Oh, yes; that was the actual amount in the vaults.

Senator BRISTOW. That is what I was referring to.

Mr. McRAE. I do not believe that we have ever permitted our cash in the vaults to run as low as $10,000 when our deposits were $300,000.

Senator BRISTOW. I was under the impression that a bank in which there were $300,000 of deposits would not feel very comfortable with only $10,000 cash on hand.

Senator NELSON. The amount you mentioned a while ago is all the Federal law requires, is it not?

Senator BRISTOW. I do not think so.

Senator POMERENE. Six per cent—about $18,000.

Mr. McRAE. We keep as much as the law requires. Perhaps I was mistaken when I said it would run as low as $10,000. We keep whatever is required and usually more.

Senator WEEKS. You know, I suppose, there was a meeting of bankers in Chicago some little time ago at which, I believe, they came to some conclusions about this bill. Are you familiar with those conclusions?

Mr. McRAE. In a general way; yes, sir.

Senator WEEKS. Are you in agreement with them?

Mr. McRAE. I am not. I do not believe, so far as Arkansas is concerned, that they represent the sentiment of the country bankers in that State.

Senator WEEKS. In what respect do you disagree with them?

Mr. McRAE. Well, if you would state just what they asked, I could tell you. I can not recall all the objections they made to the bill, but generally they were in opposition to the bill.

Senator WEEKS. Not in opposition to the principles of the bill, I think, but to some of the details of the bill.

Mr. McRAE. They oppose the 12 regional reserve banks, I believe.

Senator WEEKS. They think it is better to have less.

Mr. McRAE. I do not care anything about that, whether we have 7 or 12. I think we ought to have more than 1.

Senator WEEKS. Why do you think so?

Mr. McRAE. In order to prevent centralization and to keep the money in different sections of the country and make it easier for each section to get what it needs.

Senator WEEKS. If you had one bank and sufficient branches, would it not be equally easy?

Mr. McRAE. I can see a difference between separate reserves and a central reserve with branches. I think it better to have dependent reserves than to have branches.

Senator WEEKS. You followed then the action of that conference in Chicago, and you think it does not represent your views?

Mr. McRAE. No, sir; I think it represents the sentiment of country bankers in the State of Arkansas.

Senator WEEKS. I heard you use the expression a few moment ago, "the money of the people." What did you mean by that?

Mr. McRAE. I meant the public funds, the money in the public Treasury.

Senator NELSON. Collected by the Government?

Mr. McREA. Yes, sir.

Senator WEEKS. You mean gold?

Mr. McRAE. Anything that comes into the Treasury.

Senator HOLLIS. What is collected in taxes.

Senator NELSON. The revenues of the Government I suppose he referred to.

Senator WEEKS. All right.

Mr. McRAE. On the matters of detail, of course, I would not care to say very much, because I have not given the bill sufficient study for that. To do that I want to attend all your hearings.

But as a general proposition, I think we ought to provide for the issue of notes upon good paper, the deposit of public funds in these regional reserves, and remove the restrictions from national banks, which this bill does. If you do this it will make banking very much easier, and I think will carry many State banks into the national system.

Senator WEEKS. Will it carry your bank in?

Mr. McRAE. I think so. I would not undertake to say definitely without consulting the directors and stockholders; but, personally, I think I would advocate going into the national system if this bill is passed, unless the regulations as to assets should be such as we could not stand.

Senator NELSON. You can loan on real estate?

Mr. McRAE. Yes.

Senator NELSON. On farm mortgages?

Mr. McRAE. Yes, sir.

Senator NELSON. No limitation as to time and amount?

Mr. McRAE. No.

Senator WEEKS. That is all I have to ask, Mr. Chairman.

Mr. McRAE. I can not recall all the objections.

Senator NELSON. The first objection they made was in making it compulsory on national banks to join the reserve banks. They wanted it left open as in the case of State banks.

Mr. McRAE. I think it makes very little difference, because I think most of them would go in voluntarily.

Senator NELSON. They thought it was too arbitrary. The next objection, and one of the main objections, was to giving the reserve board the power to compel one regional bank to discount the paper of any other regional bank, whether it wanted to or not. That was another objection.

Then Mr. Reynolds made another objection in respect to any change in the method of reserves, taking them away from the other banks. The reserves in these reserve banks do not pay any interest, as you know.

Mr. McRAE. Yes.

Senator NELSON. Then there was a gentleman here who represented southern banks—I think he was from Mississippi. He objected to that feature of the bill which does not allow them to charge anything for collecting checks and drafts, etc. He said that was a great source of revenue for the small banks, and that that would handicap them a great deal. I do not remember his name just now.

Senator WEEKS. It was Mr. Maddox, of Atlanta, I believe.

Mr. McRAE. I think he is right about that.

Senator NELSON. Those were the principal objections.

Mr. McRAE. It costs something to collect these country checks, and they ought to have something for it.

Senator NELSON. He said it was a source of revenue for the banks, a great source of revenue for the small country banks.

Mr. McRAE. It is not a great source of revenue, but it is a source of some revenue, and if it could be so arranged, they ought to have pay for it. It is a service that is worth something and should be paid for.

Senator NELSON. Another point which was made was that these notes ought to be redeemed in gold only, these new notes, and not in gold or other lawful money.

Mr. McRAE. I beleive that all paper issued by the Government ought to be the best you can make it. I do not believe in any cheap notes; but as I understand it all lawful money is redeemable in gold, and if the lawful money is in turn redeemable in gold you have reached the same object, so I see no objection to the phraseology of the bill, and at the same time I do not see any objection to striking out the words "or other lawful money" if there is serious objection to it.

Senator NELSON. You believe they ought to be redeemable in gold?

Mr. McRAE. Yes. sir. I think the issuance of money is a governmental function and I want the notes issued by the Government. The banking business proper ought to be turned over the bankers. I think that all the notes provided for by this bill should be issued by the Government.

Senator WEEKS. There is no money except gold.

Mr. McRAE. I may be inapt in the use of words, but what I meant——

Senator SHAFROTH. As a matter of fact, if you take this provision out of the bill, "or other lawful money," would it not have a tendency to make it more difficult to maintain the gold standard than if it were not stricken out?

Mr. McRAE. I see no necessity for striking it out, because I think it still leaves the gold standard as it is.

Mr. SHAFROTH. Does it not do this: If we have each one of these reserve banks redeeming in gold, will it not make 12 competing points, all competing for gold against the National Treasury, and taking a great deal more gold to make the same redemption than is some of this money is redeemable in lawful money and some redeemable in gold, ultimately all of it in gold?

Mr. McRAE. I think you are right about that. It just removes——

Senator SHAFROTH (interrupting). It make the banks competitors with the Government, does it not?

Mr. McRAE. It pushes the final redemption in gold one step farther off.

Senator SHAFROTH. And by making it one step farther off, it will take a great deal less gold to accomplish the same result than if each bank had to keep a gold reserve, making the banks compete for gold against the Government.

Mr. McRAE. The objection made to that feature of the bill is not well taken, in my opinion. The bill would be better if those words were left in.

But I do not want to be understood as being in favor of any money being issued by the Government that is not ultimately payable in gold.

Senator SHAFROTH. Now, as a matter of fact, the House has placed in this bill a clause which obliges the Government to keep at a parity all these forms of money. It seems to me that that provision alone would be sufficient and that there ought to be a tendency to relieve the strain upon gold by making this our lawful money, and in that manner helping preserve the gold standard, so far as the Government is concerned.

Mr. McRAE. I rather think you are right about that.

Senator HOLLIS. The two chief objections at the Chicago conference were these: What they call political control, and what I call by a Federal reserve board appointed by the President and confirmed by the Senate, and the other that the Government should not be under obligation to redeem these Treasury notes. Will you take up those chief objections and give us your idea, first, as to the control by a Federal reserve board appointed by the President, with the advice and consent of the Senate?

Mr. McRAE. I think I have no objection to that, and I do not believe that any President of the United States will appoint a board that will interfere with the banking business. There is, as I stated a while ago, some unfair distrust of Congress on the part of the bankers and some unfair distrust of the bankers on the part of Congress. I would like to see them get closer together and understand each other better; but I do not feel that there is any danger in that provision of the bill. I think it is a wise one. I believe if they are going to issue notes and guarantee them it would be safer for the Government to be represented by a nonpartisan board, as is provided for in this bill, or substantially so, and I take it in making the appointments any President we have had during my experience or any we are likely to have would not select a board that would do any harm to the banking and business interests of the country.

Senator HOLLIS. What do you say about having the Government under obligations to redeem the Treasury notes, as opposed to having them banking notes solely on the credit of the regional reserve bank and the members?

Mr. McRAE. For the simple reason that anything that goes out and circulates as money ought to be issued by the Government, and everybody who takes it ought to know they are getting a dollar that will be redeemed and will be good anywhere. And in order to make it good there ought not to be any doubt about it. If the bill is to be a success, there must be no doubt about the payment of the notes to be issued under it.

Senator SHAFROTH. Mr. McRae, in your judgment, should the money issued by the Government and made redeemable by the Government in gold be made a legal tender for the payment of debts?

Mr. McRAE. I think it makes very little difference whether it is or not.

Senator SHAFROTH. Does it not have a tendency to strengthen the currency by making it a full legal tender?

Mr. McRAE. I think not. Take the matter of taxes. The amount of taxes we have to collect is increasing all the time, and this currency is to be received for all kinds of Government taxes. I think the legal tender immaterial. It will be used just as much without the

legal-tender facilities as with them. It is the convertability that will make it good.

Senator SHAFROTH. I have seen it stated there are 80 billions of debt in the United States. Would not the demand which would be made upon a full legal-tender currency with which to pay those 80 billions create such a demand for it that it would keep it at a parity with gold more clearly than if it did not have that clause there?

Mr. McRAE. I hardly think so, Senator. When you have a note that you can get gold for you are not going to trouble yourself much about going to get the gold. The main thing is to have currency issued by a government in which the people have confidence. It will be substantially money, whether it is or not.

The CHAIRMAN. We are greatly obliged to you, Mr. McRae, for coming before the committee.

Mr. Untermyer, the committee is ready to have you go on at this time. I have been requested, Mr. Untermyer, by several members of the committee to ask that you be permitted to make your statement uninterrupted until you have entirely covered the points you desire to cover. I would like to ask the committee if that is agreeable this morning?

Senator NELSON. What is the request?

The CHAIRMAN. That Mr. Untermyer be permitted to present all the points he desires to present without being interrupted.

Senator NELSON. I think that is a good plan.

The CHAIRMAN. If that is the will of the committee, it will be so ordered.

Senator NELSON. We will be able to get his own statement in a much better way.

FURTHER STATEMENT OF SAMUEL UNTERMYER, ESQ., OF NEW YORK, N. Y.

Mr. UNTERMYER. Mr. Chairman, before taking up the recommendations that occurred to me with respect to this bill, I would like to say a few words bearing upon the testimony I gave last week. I find that in two or three particulars it is rather fragmentary and unsatisfactory.

The CHAIRMAN. The Senate will meet in a few moments, Mr. Untermyer, and it is the desire of the committee that a recess be taken until 1 o'clock, when we will hear you to the conclusion of your statement.

(Thereupon, at 11.50 o'clock a. m., the committee took a recess until 1 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Mr. Untermyer, the committee will hear you now.

Mr. UNTERMYER. At the adjournment I was about to suggest that Senator Reed presented, at the time of my examination on Tuesday, what he referred to as the Hitchcock plan, and asked me to state my views concerning it. They were partially stated in a rather fragmentary and unsatisfactory fashion, and before proceeding with the recommendations I have in mind I should like to say a little more about that plan if I may.

As I understand it, the plan involves permitting any national bank having good commercial paper to go directly to the Treasury Department or such department as may be set up in the Treasury Department under the terms of the proposed plan, and there receive currency to the extent of 75 per cent of the capital of the bank; and of that currency so received it is proposed that one-third of the amount thus rediscounted for the bank shall be set aside as a gold reserve. Is that about right Senator Hitchcock?

Senator HITCHCOCK. That was a tentative rather than a definite plan, and I think perhaps I had better state it, as far as it has been considered at all, if you would like to have me do so.

Mr. UNTERMYER. I should very much like to have it stated so we will get it correctly before us.

Senator HITCHCOCK. The proposition was to add to the number of subtreasuries now in existence enough to bring the number up to about 50, located in the leading banking centers of the United States; to create in the Treasury Department a division which might be called the Federal reserve division; to provide that any national bank could present at any subtreasury commercial paper of a certain standard, and secure advances from the Government in the form of Treasury notes to the extent of 75 per cent of the paid-in capital of the bank; that the rate of interest should be fixed on a graduated scale, beginning at one month and running up to five or six months—the longer the term the higher the rate of interest; that in order to provide for the redemption of Treasury notes, the Government should establish in the Treasury a reserve of at least 40 per cent in gold——

Mr. UNTERMYER (interposing). Out of the proceeds of the discounts?

Senator HITCHCOCK. By the sale of bonds. It was estimated that the interest which the Government would derive from the loan of currency to the banks during perhaps four or five months of the year would much more than pay the interest on the bonds sold to procure the gold. It was estimated that that would give practically to every national bank an opportunity to secure all the currency it would require in addition to the opportunities it now has through its reserve agents.

Mr. UNTERMYER. I was asked what objections there would be to that plan, and had stated on Tuesday, at the time of the adjournment, some of the objections that occurred to me. There are others that I should like now to state. The most important objection to the plan, it seems to me, is that it provides no method for mobilizing and utilizing the reserves of the country. It rather assumes that those reserves are going to be kept, as they are now, in the great cities, and that they will continue to be utilized for stock speculating purposes as they are now. The chief virtue of the present plan is that it does mobilize and give back to the banks the use of those reserves. No plan would seem to be comprehensive that did not provide for mobilizing and utilizing those reserves. That is the first objection.

The next objection is that it would not in any way tend to regulate the discount rate.

The next objection is that it would create a bureaucracy of credit and would put the Government directly into the banking business, where it does not belong.

The next objection is that it would offer no sufficient security to the Government. That objection was quite fully discussed at the session on Tuesday.

Next in importance to mobilizing and utilizing the reserves of the country that are now driven to the great centers is the opportunity of making a market for bills of exchange and acceptances—an open discount market—so that we can get along hereafter with less money and have more credit. That can not be created unless you have central reserve banks and a demand created for bills and acceptances. This seems to me crude in that it deprives you of the opportunity of ever creating such a market.

Again the bill does not provide for an elastic currency. The amount of capital possessed by the national banks of the United States is no criterion of the commercial needs of the country. The total capital of the banks is a little over a billion dollars. If each bank were permitted to borrow 75 per cent of its capital that would be about $750,000,000 as against which a gold reserve would have to be set aside. It takes no account of the amount of commercial paper that requires currency, and, as I say, it is not a fair criterion of the needs of the country. It would simply be superimposing upon the existing inelastic currency another inelastic currency for a further amount.

Then again, assuming that you established these subtreasuries in 50 sections of the United States, you would simply have an autocrat in every one of those sections who would pass upon the paper presented; because the central government at Washington, the Treasury Department, would have no means really of knowing anything about the quality of the paper and every bank in that community would be subject to the will and whim of that treasury official in that department. You would not have what you would get under this bill, a board selected by the bankers, with nine members upon it drawn from the various localities whose combined judgment and check upon one another would assure some measure of justice in passing upon the collateral for which currency is to be issued. It seems to me it would be a most autocratic form of financial government, and, in a country as vast as ours in area and commercial importance it could not possibly maintain itself for any length of time.

They have such a system in France and Germany, but in as small a country as France they have 467 of these agencies, and the volume of business done in those countries is a bagatelle compared to the business we do. I think we do something like sixty times the business of France, if I remember correctly. If you consider the task of attempting to have a single individual in a locality pass upon all the paper that will be presented, really subject to no review, I think it must be agreed it would be in practice rather an unworkable scheme.

Further, it seems to me it would be quite impracticable to regulate the interest rates in the different localities, except in a most crude and arbitrary fashion. You might start at some given point, according to the suggestion made by you a moment ago, Senator Hitchcock. You might say that all loans shall begin at, we will say, 2 per cent, and that there shall be a rising rate, but that would not allow for the varying uses and the varying values of the money in the different localities. You would have to start with a different interest rate in

different localities, and who is to determine that difference? The plan offers a thousand opportunities for favoritism to every one that is offered under the plan that is now criticized as being possibly subject to abuse in the direction of favoritism.

I do not think I care to add anything to what I suggested the other day as to the lack of security, but it seems to me it would be rather a dangerous kind of collateral on which to issue the currency of the United States. Let us assume a bank with $50,000 of capital and $100,000 of deposits, if you please, going to the Treasury and discounting $37,000 of its promissory notes and receiving currency, which it would have the absolute right to do. There is mighty little security to the Government in that kind of collateral as a basis for currency issue. When we compare that sort of so-called security with what is offered under this bill, I should say that the chances, on a guess, would be about twenty-five thousand to one as to the character of the security under this bill. Every time a bank failed the Government would be without redress, except dollar for dollar of these collateral notes against the obligation owing to the Government and a first lien upon the assets of that bank.

The issue of currency should be so far removed from doubt or question that it will pass like gold, and I do not think it would be likely to pass in that way with so little security back of it. This bill offers overwhelming security. It is not necessary to rehearse that further. It has been fully exploited.

That is all I wanted to say on that subject.

Senator HITCHCOCK. Now, Mr. Untermyer, as far as your criticism goes, that it does not mobilize the reserves, I admit that.

Mr. UNTERMYER. Is not that the most important part of any currency system?

Senator HITCHCOCK. Will you give the committee an idea of your estimate of the importance of mobilizing the reserves as compared with the importance of providing an additional or elastic currency? Which is the important thing to do?

Mr. UNTERMYER. I think they are equally important, and the present bill does both. When you mobilize the reserves, Senator Hitchcock, you provide to that extent an elastic currency under the scheme of this bill. I mean you add to the currency that is available in mobilizing the reserves.

Senator HITCHCOCK. Can you tell me to what extent the reserves are mobilized in France?

Mr. UNTERMYER. I do not know the figures, but I know that not only every banking institution in France but many thousands of individuals are depositors with the Bank of France. I think it has 70,000 depositors.

Senator HITCHCOCK. But the aggregate of their deposits is comparatively insignificant.

Mr. UNTERMYER. I do not know the figures, but I thought not; I thought they were very large.

Senator HITCHCOCK. No; very small. And the aggregate deposits of the Bank of England are insignificant as compared with the deposits of the independent banks.

Mr. UNTERMYER. All the independent banks pretty much in England and France have accounts with the Bank of France and

with the Bank of England. I doubt whether there is a single institution in either of those countries of any consequence that does not have a deposit account with the bank. I am not sure, but that was my general impression.

Senator HITCHCOCK. But, if the importance of mobilizing the reserves were understood, you would see a great deposit in the Bank of France and a great deposit in the Bank of England. As a matter of fact, there are independent banks in France with greater deposits than the Bank of France has, and there are independent banks in England with greater deposits than the Bank of England has.

Mr. UNTERMYER. But the answer to that is, Senator Hitchcock, that they do not require any reserves in those countries, and there are therefore no idle reserves that require mobilization and use as with us. Since we do require the locking up of so large a part of the money of the country in the form of reserves, the proposition with us is to use and mobilize those reserves that are not being used in the way in which they should be used.

Senator HITCHCOCK. The testimony of all business men who have come before the committee is that in their opinion the need of the business world is to secure additional currency in times of necessity, and that for that purpose the amount of additional currency required is not very great. And I think if you will look up the experience of Germany, France, and Great Britain you will find that that is the big thing in those countries—that is, the elasticity of the currency rather than the mobilization of reserves.

Mr. UNTERMYER. Because their reserves are already utilized. They are already made use of because of the fact that there is a central bank to which any one of those banks can go and get currency on commercial paper when it wants it and therefore that bank does not need to keep a reserve. If you want additional currency, the mobilization of these reserves gives you additional currency. Those reserves are now sent on to the great cities. There are, I think, 800 or 900 millions of them in New York, and, as the testimony before the Pujo committee showed, they are used in carrying collateral loans in Wall Street speculation instead of being kept in the regions where they belonged. Under this plan, with these regional reserve banks, those reserves will stay in the communities where they belong and two-thirds of them will be loanable to the banks who are members of the regional bank. You will have that additional money put at the service of those banks loaned back to them, whereas it now goes away from them.

Senator O'GORMAN. If I may interrupt you there, Mr. Untermeyer, if two-thirds of the reserves may be loaned by the regional banks to the member banks, is there any restriction as to the manner in which the member banks will make use of the two-thirds?

Mr. UNTERMYER. No.

Senator O'GORMAN. They could send that money back to the East if they wanted to?

Mr. UNTERMYER. Yes.

Senator O'GORMAN. So that, according to this suggestion of yours, the restraint or limitation contemplated by this new program would only affect one-third of the reserves——

Mr. UNTERMYER. Hardly that.

Senator O'GORMAN. The other two-thirds could remain where they are now.

Mr. UNTERMYER. That is hardly conceivable, Senator O'Gorman, for the reason that the regional bank, when it loans back these reserves, is going to charge interest and to get security—notes and bills—it is going to pass upon the question whether that money is needed in that region, whether the people who borrow it want it for the purpose of legitimate business there—and if they use it for other purposes they are not likely to get it.

Then, again, another check upon any such use as you suggest lies in the fact that they probably can not get in the East as much interest as they would have to pay the reserve bank for this money. They are now sending their reserves to New York and are getting 2 per cent. Presumably the reserve bank is going to charge them 2 per cent, or more than 2 per cent, for the use of that money. So unless that money is active and can be used in the regions where it belongs, it is a burden to them to take it.

Senator NELSON. Are you not confounding the technical reserves provided in the bill with that other class of money that may be called reserves? Take the country banks. Under this new bill they are entitled to maintain 5 per cent reserve in the regional bank and 5 per cent in their own vaults, and there is 2 per cent that is elective. As some gentleman suggested here the other day, if you divide that equally, you leave 6 per cent with each. Now, as I understand the law, those reserves—with the 6 per cent in the vault of the bank or with the regional reserve bank—those reserves are not for discount purposes. They remain there as a reserve just as they do under our existing system.

Mr. UNTERMYER. No; on the contrary, they are all loanable, provided——

Senator O'GORMAN (interposing). The reserves of the member banks, too?

Mr. UNTERMYER. Certainly; that is just the fund that is there, practically the only fund that is there except the capital of the bank and the Government funds. Those are the only three funds that the bank has for loaning purposes. The reserves of the member banks put into the reserve bank are reloanable, except to the extent of 33⅓ per cent gold that must be set aside. And if the reserve bank does not reborrow—does not ask for currency—it need not set aside the 33 per cent and can utilize all those reserves in the rediscount of paper for the member banks.

Senator NELSON. You are assuming the only money the regional banks will have will be these reserves. I take it, if the system works well, the member banks will deposit a good deal more money than the mere reserves, and those will be the available funds.

Mr. UNTERMYER. I should say not, because the reserve bank can pay no interest, and if they have further funds they will deposit them with their correspondents where they can get interest.

Senator NELSON. They can not pay interest on that special reserve.

Mr. UNTERMYER. I can not see that they have any right to pay interest on any of their funds.

Senator HITCHCOCK. I should like to take up in reverse order some of these objections you have made. You say it will create 50

autocrats in the subtreasuries throughout the country. Suppose that paper is standardized. Government agents are examining that paper constantly. Suppose the paper that has been examined and found good he may permit to be used at these subtreasuries and take away the arbitrary power. I have not any idea of intrusting to a man in the subtreasury the power to refuse——

Mr. UNTERMYER (interposing). Then you will probably get all kinds of cats and dogs in the way of paper.

Senator HITCHCOCK. No; the United States Government has examined these banks three or four times and passed upon their paper.

Mr. UNTERMYER. In the most general fashion; I have never heard of any bank examiner who could undertake to standardize the paper. The bank examiner can not tell whether it is accommodation paper or the purpose for which the paper was issued, and does not undertake to do so.

Senator HITCHCOCK. Do you think it will be any more difficult to have this examination made in 50 cities of the United States, as provided under this Treasury plan, than to have it made in 12 cities?

Mr. UNTERMYER. The systems would be entirely different. If the examination in the 50 cities is to be by a single man, there is no check at all.

Senator HITCHCOCK. Not necessarily; no, not at all. You have assumed that.

Mr. UNTERMYER. I have assumed that the Treasury agent would pass upon the paper.

Senator HITCHCOCK. I have assumed that the subtreasury would be properly equipped with men sufficient to pass upon the paper of the several hundred banks of that region.

Mr. UNTERMYER. If you are going to have a board in each one, then you come back to the regional board under this bill, which provides for nine men who are supposed to know the needs of that locality.

Senator HITCHCOCK. It is not contemplated that the security shall be wholly commercial paper. The Secretary of the Treasury would establish a rule requiring a certain per cent of Government bonds, a certain per cent of State bonds, a certain per cent of municipal bonds, a certain per cent of commercial paper of a certain valuation, say, 80 per cent; and the Government would retain a first lien upon all the assets of the bank. And, moreover, the fund which the Government would derive from any interest from these various banks would be sufficient not only to pay interest on the bonds used in purchasing gold, but also to establish a safety fund to pay losses that might arise. And I believe it could go further and establish a fund sufficient to pay the cost of the subtreasuries, and possibly even to start a fund for the guaranteeing of bank deposits.

Mr. UNTERMYER. That is a very elaborate plan, but it involves putting the Government into the banking business in most violent fashion.

Senator HITCHCOCK. Much less so than does this pending bill.

Mr. UNTERMYER. Let us see if that is so—because I think everybody is opposed to putting the Government into the banking business any more than is absolutely necessary. The system proposed in the pending bill, to my mind, does not put the Government into the banking business at all, for this reason: The paper that is rediscounted

at the reserve banks is passed upon by the elected directors of the member banks; that is, six of the nine directors of the reserve bank are nominees of the stockholders. They pass upon that paper. There are three Government directors in the board, whose duty it would be to check that sort of paper, so that when the reserve bank needs currency no machinery on the part of the Government is necessary in passing upon the collateral that is offered for that currency. It has already gone through the process of investigation at the hands of the directors representing the shareholders of the bank and the Government's representatives on the board. All the Government relies on when it rediscounts that paper or loans upon it and gives its currency is the indorsement of the member banks, supported by the indorsement of the reserve bank, with a first lien on the assets of the reserve bank; and about all that those people are interested in in discounting that paper is to determine whether it is entitled to discount. The Government is not really in the banking business under that plan. It is deeply in it under a plan by which its agents have to pass on this paper.

Senator HITCHCOCK. Let me ask you a question or two with respect to that. The President appoints the board of seven men, and they control the rate of interest for the Government?

Mr. UNTERMYER. I do not think they do; no.

Senator HITCHCOCK. They control the rate of interest at which the advances are to be made to the reserve banks?

Mr. UNTERMYER. Yes; the rate at which the currency is to be issued, just as the Government fixes the interest on Government bonds when it issues them. But that does not put the Government in the banking business.

Senator HITCHCOCK. If you will just answer my questions, Mr. Untermyer——

Mr. UNTERMYER (interposing). I am trying to do so.

Senator HITCHCOCK. The seven men control the rate of interest at which the currency is advanced to the reserve banks?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. They control the rate of interest at which the reserve banks pay for Government deposits?

Mr. UNTERMYER. We will come to that later——

Senator HITCHCOCK (interposing). That is true, is it not?

Mr. UNTERMYER. As the bill stands now, yes. I do not think there ought to be any interest on Government deposits.

Senator HITCHCOCK. They have the power to require one reserve bank to make advances to another?

Mr. UNTERMYER. Yes; in order to mobilize the reserves. It is an essential part of any system.

Senator HITCHCOCK. Whatever the purpose is. They have the power to remove three of the directors upon any reserve board or all of them?

Mr. UNTERMYER. No; not all of them.

Senator HITCHCOCK. They can remove the three directors from the 12 reserve banks?

Mr. UNTERMYER. They can remove three of the six upon charges and after trial. They can remove them for dishonesty and a few other specified offenses; that is not a banking power; that is a sort of judicial power.

Senator HITCHCOCK. It is a power to control the rate of interest, in the first place, upon all the currency of the country, because this currency is not only to be in addition to the bank-note currency but is ultimately to supplant it. They will have the power to control the rate of interest upon all the currency in the country; they are to have the power to direct——

Mr. UNTERMYER (interposing). They think they will, but under this bill they never will.

Senator HITCHCOCK. They have the power to direct one reserve bank to loan to another; they have the power to remove three of the nine directors of the reserve bank which the stockholders have chosen.

Mr. UNTERMYER. And the stockholders will elect their successors.

Senator HITCHCOCK. They have the power to remove the officers of any reserve bank at any time; they appoint three of them directly, and yet you say that they are not running a bank.

Mr. UNTERMYER. In the first place, I do not agree to your summing up or to your premises; and I do not think they are running a bank, Senator Hitchcock.

Senator HITCHCOCK. Which of my premises do you dispute?

Mr. UNTERMYER. I dispute, in the first place, your premises as to their power of removal, which is far too restrictive, to my mind.

Senator HITCHCOCK. You admit they have the power of removal?

Mr. UNTERMYER. They have a judicial power of removal after trial, but they can not substitute their own directors for those removed. The member banks simply substitute others. They have the power to select the chairman of the regional reserve bank, but the board of directors, under the peculiar provisions of this bill, have the power to set him aside the next day, which they ought not to have.

Senator HITCHCOCK. And yet with all these vast powers in their hands you think that they are not running a bank?

Mr. UNTERMYER. I do not think they are anything like running a bank, because they are not passing upon credits, which is the essential base of running a bank, and under your plan they would be passing on credits. You say they have the right to regulate the interest rate. The bill says so; but to pass a law saying that they have the right to regulate the interest rate does not give them the right. They will never be able to regulate the interest rate unless the bill will permit the reserve banks to go into the market and buy paper and regulate the interest rate in that way, as they do in other countries.

Senator HITCHCOCK. It is provided in section 15.

Mr. UNTERMYER. I do not agree with you.

Senator HITCHCOCK. That may be the disputed point.

Mr. UNTERMYER. We will come to that in a moment, because I think it is not provided there.

Senator HITCHCOCK. You say they pass on no credits, and therefore they are not in the banking business?

Mr. UNTERMYER. That is one reason.

Senator HITCHCOCK. Suppose the regional bank desires to procure currency, what does it do?

Mr. UNTERMYER. It presents a certain amount of paper, with its own indorsement, that has been passed upon by its board, and there-

upon the Federal board has no machinery for finding out anything about it, but simply goes and issues the currency.

Senator HITCHCOCK. The Federal board has a representative in the reserve bank.

Mr. UNTERMYER. Certainly, it has three of them—it has a minority representation.

Senator HITCHCOCK. And the paper passes into the custody of the Federal board in that way.

Mr. UNTERMYER. Quasi custody; yes.

Senator HITCHCOCK. You argue that there is to be no audit of that paper. Is there anything to cause them to accept it if the reserve bank turns it over?

Mr. UNTERMYER. It seems to me that is the effect of the bill, because there is no machinery provided.

Senator HITCHCOCK. But that is the security to the Government, is it not?

Mr. UNTERMYER. The paper itself is not the only security to the Government.

Senator HITCHCOCK. I did not say it was the only security. I say that is security for the purpose of being security for the Government.

Mr. UNTERMYER. A part of the security.

Senator HITCHCOCK. Just as the individual bank puts its paper into the custody of the Federal Government for security, so that there is as much passing upon the credit in one case as there is upon the other?

Mr. UNTERMYER. I differ from you entirely In the one case the Government must pass upon this paper, because there is no one else to interpose for the purpose. In the case under the bill the regional reserve bank, with its nine directors, is interposed to pass upon the paper and thereby the Government is relieved of the duty of passing upon it.

Senator BRISTOW. I understand, Mr. Untermyer, that you say that the Federal reserve board could only remove these directors in class B upon trial?

Mr. UNTERMYER. That is the effect of it, I think.

Senator BRISTOW. This is what the language says. Let me read it to you.

Mr. UNTERMYER. Yes.

Senator BRISTOW (reading):

> The Federal reserve board shall have power, at its discretion, to remove any director of class B in any Federal reserve bank if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interes's of his district.

Is that a malfeasance of any kind?

Mr. UNTERMYER. If you will let me supplement that, and you will turn to page 22, subdivision (f)—please read that, as to the powers of the Federal reserve board. [Reading:]

> To suspend the officials of Federal reserve banks and, for cause stated in writing with opportunity of hearing, require the removal of said officials for incompetency, dereliction of duty, fraud, or deceit, such removal to be subject to the approval by the President of the United States.

Do you not think those two paragraphs should be read together?

Senator BRISTOW. Of course, it shall be its power, but does not the language on page 8 confer a broader power?

Mr. UNTERMYER. It would if it were not for the language on page 22.

Senator BRISTOW. But the language on page 22 does not pretend to limit the power on page 8?

Mr. UNTERMYER. I think that wherever you have a specific delegation of power and a general delegation of power that the rule of construction is that the specific delegation of power limits.

Senator REED. Then about the amount of it is this: That you claim that the Government's right to remove those three directors is limited practically to malfeasance in office?

Mr. UNTERMYER. Yes.

Senator REED. So that the banks, having once elected a majority of the board of directors, can practically hold that majority, and even if the Government for malfeasance removes a director the bank can immediately substitute another?

Mr. UNTERMYER. Yes; and I think that is wrong.

Senator REED. So that the banks under this bill absolutely control and dominate the regional banks?

Mr. UNTERMYER. They do, and they ought not. I think that that is the defect in the bill. That is one of the reasons why I said I thought the bill was too generous to the bankers.

Senator HITCHCOCK. Then you, Mr. Untermyer, think that this does not provide an elastic currency?

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. Let me ask you now how much currency would be taken out by the national banks if all of them took out their limit under this suggestion.

Mr. UNTERMYER. It would be about $750,000,000, would it not, of which they must set aside a reserve in gold?

Senator HITCHCOCK. You would not think that the banks would all take out this amount of currency and pay a high rate of interest, a constantly increasing rate of interest, which starts at 3 per cent and rises to 10 per cent? Would not that give it an elastic feature?

Mr. UNTERMYER. I think not, Senator Hitchcock, and I think that would be about as dangerous a thing as anything could be—to have a rigid rise in an interest rate, which you call "elasticity" and I would call the opposite of elasticity, because there may be time when that currency must play out.

Senator HITCHCOCK. How long?

Mr. UNTERMYER. You can not tell; it depends upon the conditions of the country.

Senator HITCHCOCK. Let me ask you——

Mr. UNTERMYER. Do you not think it would be rather a blind folly to have a rigid rising rate of interest without discretion anywhere?

Senator HITCHCOCK. No, sir; I think that is the very thing we want.

Mr. UNTERMYER. You would have a contraction when you perhaps needed most of all an expansion.

Senator HITCHCOCK. As the length of time it kept out its loan increased it would be required to pay higher rate of interest, and it would charge that to its customer, and we know as we increase the rate of interest to borrowers we put a restraint upon their borrowing and reduce gradually the contraction which is desired?

Mr. UNTERMYER. Yes. But I call that a pretty dangerous form of currency, because you would call in the money when it was most needed.

Senator HITCHCOCK. Not at all. You would only do it in individual cases, where the banks of one region might begin to borrow, and borrow for 30, or 60, or 90 days, it would regulate the rate of interest to cover all their needs, other regions would not be borrowing until a later period in the year, and you would have your elasticity occur in different parts of the country at a different time, by that very method of allowing each bank to call for its own needs. We have had testimony here indicating that the length of time which a bank requires relief of this sort is only three or four months during the year, and the experience of Germany, as you very well know, shows that there is a period of contraction and expansion of the currency four times a year there, almost as regularly as the seasons. Is not that true?

Mr. UNTERMYER. I do not think it is quite to the extent, Senator Hitchcock, to which you have stated, but there are periodic expansions and contractions of the currency which in Germany and France occur sometimes at one time and sometimes at another.

The CHAIRMAN. I call your attention to page 542 of these hearings, which gives the number of days and the different rates of interest which have been charged by the banks of England, Germany, France, and other European countries.

Senator HITCHCOCK. That would hardly satisfy me. I have had a computation made of it, so that I am advised when I say there is a period of contraction and expansion of the currency four times a year there almost as regularly as the seasons, and in Germany the contraction almost invariably occurs in the fall and the expansion in the spring.

Mr. UNTERMYER. Does not that depend upon business conditions?

Senator HITCHCOCK. I have a number of years computed, and it runs wonderfully regularly.

Mr. UNTERMYER. For instance, when the crops are bad, the farmers have to borrow for a longer period than when the crops are good.

Senator HITCHCOCK. There are variations, of course. I want to ask you, though, before I leave that, why you say that this opportunity of the individual bank to secure a limited amount of currency for its own needs applied to 7,000 banks in different parts of the country will not result in an elastic currency, expanding in the locality as it is desired for the season, and contracting when the season for demand is past?

Mr. UNTERMYER. Because, when the bank gets up to three-fourths of its capital, no matter what the need is in that locality, it can not get any more money. You have measured the elasticity of the currency by the capital of the national banks instead of by the needs of commerce. Now, the needs of commerce are demonstrated by the commercial paper that is in circulation, but as long as there is genuine, good commercial paper to be discounted, why, that is the unfailing sign that the needs of commerce have not been supplied.

Senator HITCHCOCK. You are speaking so positively, Mr. Untermyer, that you must know what the rate of expansion and contraction is in these countries that have this system, and I would like to have you state it.

Mr. UNTERMYER. I do not know it from memory; I do not undertake to state it from memory.

Senator HITCHCOCK. Could you approximate it?

Mr. UNTERMYER. I do not think so.

Senator HITCHCOCK. Suppose you found that the rate of expansion and contraction in European countries is something like 10 per cent of the volume of currency. Would you still say that there was a need for a greater expansion of credit than 75 per cent of the capital of the national banks?

Mr. UNTERMYER. The capital of the national banks has no relation to the amount of currency outstanding, and how do you make that a criterion? You might as well say the number of bricks that are manufactured every year——

Senator HITCHCOCK (interposing). Suppose that the experience of Europe over a long period of years has indicated that the volume of expansion and contraction of the currency, from the maximum to the minimum, is about 10 per cent; suppose we applied that contraction and expansion to this country, and that 10 per cent did not approximate what I have stated as a limit to be measured by the capital of the bank, would you not know that that was a fair limit?

Mr. UNTERMYER. No; on the contrary, I do not see how you can argue from European conditions in this country. I do not think that the same conditions of trade apply here.

Senator REED. Let me understand you. You do not think that we get very much light, from the experience of European nations?

Mr. UNTERMYER. Oh, I think we get a vast amount of light from the workings of their systems, but I say when you come to the question of the amount of expansion and contraction in a compact country like Germany or France, within a very narrow space on that subject, it is not a criterion, but on many subjects it is, Senator——

Senator REED. I wish now, in order that I might have some kind of a guide to go by, some of you gentlemen who understand these matters, I do not, would tell me just how far we are to follow European precedents. It seems to me, I will say frankly, that when a European precedent suits a witness it is a thing that is then sacred and inviolable and is to be blindly followed, but when it does not suit that it is utterly without competency. I would like if somebody would draw for me the line then showing how far we are to follow Europe and where we are to depart from this lead.

Mr. UNTERMYER. I think that the asking of that question rather demonstrates that we would be unlikely to agree on that general subject, because we can not draw a line on that subject, Senator Reed; and, furthermore, it seems to me that some time the inquirer refers to the experience of Europe when it suits his purpose and when it does he does not do so.

Senator REED. In the last analysis this committee has got to follow the light of Europe as of no account?

Mr. UNTERMYER. On the contrary, the experience of European countries ought to be of very great value to us, and it seems to me ought to guide us in many respects. For instance, they have been able to establish a discount market for bills and acceptances, and in some countries they have established a discount market to such an extent that they have a credit system that takes the place of money. Now, there seems to be no reason why we should not in this country

be able likewise to establish such a market. Every student of finance whose works I have ever read has insisted upon and has emphasized the importance of a discount market as a part of any system we might originate, and it seems to me it is one of the most essential things of any system that we do originate; but, of course, a discount market can not be created unless you have these reserve banks that will buy and sell exchange and acceptances and bills. and in that way create a market. That is one point on which we can learn vastly from the experience of foreign countries, because here you have Great Britain, for instance, getting along with only £32,000 of currency outstanding and £32,000 of gold, doing almost as much business as any part of the world, with its vast Empire, and it gets along on that small amount of gold and that small amount of currency because it does it business upon this credit system, to the acceptance market that it has created.

Senator HOLLIS. Pardon me, you said £32,000.

Mr. UNTERMYER. £32,000,000. I will ask the stenographer to kindly correct that.

Senator HITCHCOCK. I want to test this elasticity proposition a little more, and I will start, for instance, with a date in Germany; say 1901. In December, 1901, there was an expansion of the currency amounting to 14 per cent——

Mr. UNTERMYER (interposing). Expansion over what date?

Senator HITCHCOCK. The expansion was—no, the expansion was in March, 1901, amounting to 14 per cent.

Mr. UNTERMYER. Expansion from what? You have to expand from some point.

Senator HITCHCOCK. I have to start from some point or from what it had been. In December there was a shrinkage of 11 per cent; in February, 1902, there was an expansion of 12½ per cent; in December there was a shrinkage of 11 per cent.

Mr. UNTERMYER. What is the normal figure at which you start?

Senator HITCHCOCK. There is no normal point from which I start.

Mr. UNTERMYER. You can not have expansion or contraction without starting at some point.

Senator HITCHCOCK. I am starting with 1901, I should say, on the date that I took, and it had expanded 14 per cent from what it had been at the previous taking. We have got to take an arbitrary point for starting.

I will repeat that proposition: In March there had been an expansion of 14 per cent over what it had been——

Mr. UNTERMYER. I understand now.

Senator HITCHCOCK. In December, 1901, there was a shrinkage of 11 per cent from that; in February, 1902, it expanded 12½ per cent; in December it shrunk 11 per cent; in February, 1903, it expanded 12½ per cent; in December it contracted 11½ per cent; in February, 1904, it expanded 12 per cent; in December it shrunk 11½ per cent; in February, 1905, it expanded 13 per cent; in December it shrunk 11½ per cent; in February, 1906, it had expanded 15 per cent; by the end of the year it had shrunk 12 per cent; in February, 1907, it expanded 13 per cent; and there my statistics stop.

My point is that while there has been a gradual increase in the currency in Germany and an expansion each year there, there has also

been a contraction each year, so that the average change is not over 10 per cent.

Mr. UNTERMYER. Is not that very misleading, for this reason——

Senator HITCHCOCK (interposing). I will finish my question——

Mr. UNTERMYER. Yes.

Senator HITCHCOCK. If we have a currency in this country of $3,000,000,000——

Mr. UNTERMYER (interposing). $3,700,000,000.

Senator HITCHCOCK. Say $3,700,000,000, and it expands and contracts according to the experience of Germany about 10 per cent. Would not the limit of twice that amount for elasticity, as suggested in this Treasury plan, be sufficient to meet the elastic needs of currency?

Mr. UNTERMYER. It does not follow at all.

Senator HITCHCOCK. Why not?

Mr. UNTERMYER. I am going to tell you why. In the first place, when you speak of expansion and contraction of the currency in Germany, there has been a gradual and continuous increase in the currency issue of France.

Senator HITCHCOCK. So there has been in Germany and France.

Mr. UNTERMYER. We are starting with a rigid issue.

Senator HITCHCOCK. No; you are mistaken there.

Mr. UNTERMYER. We are starting now with a rigid issue. We have a bank-note issue, and we have gold certificates represented by gold deposits, and we have greenbacks——

Senator HITCHCOCK. Our currency is increasing every year $60,000,000 or $70,000,000.

Mr. UNTERMYER. Only the subsidiary currency.

Senator HITCHCOCK. No; our gold is increasing.

Mr. UNTERMYER. From the gold, yes; but that is not the case in France and Germany. They are increasing very largely or have increased something like $200,000,000, for instance, in France in 10 years in subsidiary coin alone. They have got now 1,400 million francs of subsidiary currency out. I am trying to explain why that is a misleading illustration and precedent. In the first place, if you start now with a new kind of currency, you have got to find out what are the needs of the country, how much expansion is necessary. In Germany, at the time at which you have started, they had that currency in existence: they had their discount market, their acceptance market in existence; they had a fixed system that was in working operation and had been for years, and so the needs from year to year of expansion and contraction could be pretty well determined from the experience of previous years with the same system.

Now, you are proposing to start upon an entire new field without any experience in our own country as to what are the real needs of commerce to guide you, and therefore you can not say that because after Germany has had a certain system for 10 or 15 years, and as it has had it and there has been a circulating market for credits to help out the needs of currency, and that when we start on a new system that the conditions in a given year there are going to guide us.

Senator HITCHCOCK. Mr. Untermyer, the suggestion made by Senator Reed of what he called the "Hitchcock plan"—it is no more my plan than it is his, as a matter of fact——

Mr. UNTERMYER. I thought it was a joint creation.

Senator HITCHCOCK. Or of Senator Bristow. The suggestion of that plan is not to start with a new system. We propose to hold on to what we have got and simply add this to it.

Mr. UNTERMYER. It is a superadding system, then?

Senator HITCHCOCK. And we figure that enough elasticity is provided, if we give the banks of the country an opportunity to secure a maximum of $700,000,000 of additional currency for short periods during the year, and we point to the European experience and we ask you to say where there has been any greater expansion and contraction in any country of the world than would be provided for with the limit that we have named.

Mr. UNTERMYER. If you will take the German system at the date when it first went into effect, then you would have some sort of anology, but you are taking a system that has been working for years.

Senator HITCHCOCK. You are mistaken again. We are not proposing to disturb the existing system. What we propose is to give something additional without detracting in any respect from the credit system that we now have.

Mr. UNTERMYER. Senator Hitchcock, what you are proposing to do is to engraft a superadded system upon the existing system, something that you believe will be an expansive and elastic system?

Senator HITCHCOCK. That is right.

Mr. UNTERMYER. Now, then, you ask what is the extent of required elasticity in this country, and you are being told that nobody knows, because it has never been tried. Then, in response to that, you point to the German system and show the elasticity there, and the rejoinder is made to that that it is no analogy because it is not giving us the figures of what happened when it was first introduced.

Senator NELSON. Here is the point that you both overlooked, it seems to me, and that is this: The growth and volume of business in the Old World, in Germany particularly, is more stationary than it is here. Our business, like our growth in wealth and population, is at bigger leaps and bounds, and hence because of this we can not always measure these things by the measure of the Old World. If our growth in volume of our business was increasing and expanding at the same rate as in Germany, then it would be a good criterion.

Senator HITCHCOCK. The criticism would be just if we were proposing to contract anything that we have. We are not proposing to take away anything from the banking power of the country at all, but simply to add this—and we think that it is not up to us to show so much that it is sufficient as it is for somebody else to show that it is inadequate.

Mr. UNTERMYER. On the question of its inadequacy let us assume that you need a vast amount of money to move your wheat crop. You have a small corn crop, and you will not need so much to move that, but you have a very big wheat crop and you will require a good deal of money in those sections to move the wheat crop. The banks in that section may have a comparatively limited capital. They may not be able to get the money with which to move that wheat crop. You are trying to measure the needs of a locality by the bank capital in that locality instead of by the commercial requirements of the locality in the securing of additional currency.

Senator HITCHCOCK. Let me stop you right there. They have at the present time certain facilities for moving the wheat crop, and nine out of ten years they will have sufficient to move it without any difficulty—or nineteen years out of twenty. We are not contracting what they have got, but the resources they have now remain. All that has been suggested is to do this; and what we are proposing to do is not to tear up by the roots what we have got now and substitute something else for it. It is not necessary for us to go to the extent that you indicate. You are making a fatal and tremendous mistake; but if we provide something in addition to what we have already got, that much at least has been gained and experience may indicate that we can go further.

Mr. UNTERMYER. You do not tear up by the roots what you have under this plan, it seems to me; but apart from that you are endeavoring to establish a new currency system, and you admit that you have got to make it elastic, and the first question that arises in connection with the suggested plan is, Is it elastic or is it rigid? It seems to me that it is absolutely rigid, just as rigid as the bank-note currency is, because it is based and fixed on a known factor, to wit, the bank capital.

Senator HITCHCOCK. I can not think it possible, Mr. Untermyer, that you seriously intend to say that. You know that under the law that when the banks take out these bank notes and have that currency they can not retire it except very slowly—it is practically impossible to retire their bank-note currency as long as they continue in business, except in the slowest possible way.

Mr. UNTERMYER. I do not know about that.

Senator HITCHCOCK. I will not dispute it with you, but that is the law. The situation is such that banks can not retire it, can not market their bonds, and can not afford to retire their currency.

Senator SHAFROTH. There is a limit by law.

Mr. UNTERMYER. But, subject to that limit, they can retire them.

Senator HITCHCOCK. There is a limit by law. Suppose three banks out in Wichita take out this currency, when the time comes to move the wheat crop, and they pay a rate of interest on it. They may be able to take it for 30, 60, or 90 days, or 4 months, because the rate would not be greater than conditions would enable them to meet it, but ofter they passed that point and the wheat crop moved, the rate of interest becomes practically prohibitive, and those banks will, from self-interest, pay up the Government what they have borrowed and retire that much currency. Why is that not elastic?

Mr. UNTERMYER. Because it is limited by the capital of the banks and not by the needs of the community.

Senator HITCHCOCK. In other words, you say it is not elastic because it does not go without any limit at all?

Mr. UNTERMYER. No; because it is not regulated by the only known scientific basis of regulation, that is, the amount of legitimate commercial paper requiring that accommodation.

Senator HITCHCOCK. You say that such a currency would not be elastic, because we propose a limit at $700,000,000?

Mr. UNTERMYER. No; not all; I do not say——

Senator HITCHCOCK. Because we limit it by the capital of the bank?

Mr. UNTERMYER. Yes; which is no criterion at all.

Senator HITCHCOCK. Then you know, as a matter of fact, that the bank-note issue of Germany is limited?

Mr. UNTERMYER. It is not limited by the capital of the bank; no.

Senator HITCHCOCK. But you know it is limited?

Mr. UNTERMYER. It is limited by law.

Senator HITCHCOCK. You know that the bank-note issue of Germany is limited?

Mr. UNTERMYER. It is not limited in any way.

Senator HITCHCOCK. It is limited by law.

Mr. UNTERMYER. They passed the statute to the effect that there should not be any more than so much currency.

Senator HITCHCOCK. No; they do not do that.

Mr. UNTERMYER. Yes; they do.

Senator HITCHCOCK. They provide that the Reichesbank can not issue any currency, except about $500,000,000, which is gold, in bullion and silver, and its indebtedness to the Government.

Senator HITCHCOCK. There is, therefore, I say, a limit to the bank-note issue of Germany and the bank-note issue of France, and therefore, according to your argument, that is not an elastic currency?

Mr. UNTERMYER. Here is the distinction. They have based their legislation limiting the currency issue upon the experience of a generation with the discounting of commercial paper. They know how much paper there is in existence, what the needs are, and they place a wide margin of safety upon their wants and then they put that limit upon it. They have had the experience; we have had no experience.

Senator HITCHCOCK. You say—this is merely a suggestion proposed for consideration—you say it is not an elastic currency?

Mr. UNTERMYER. No.

Senator HITCHCOCK. It might result in the issue of $700,000,000 of United States notes? Is that not true?

Mr. UNTERMYER. After putting aside the resources, we will say, $500,000,000.

Senator HITCHCOCK. Of United States notes?

Mr. UNTERMYER. No.

Senator HITCHCOCK. That is possible?

Mr. UNTERMYER. Yes; if every bank in the United States took out currency at the same time.

Senator HITCHCOCK. Now, then, when that is issued, the tax will rise in proportion to the time it is kept up? You do not deny the banks wil be retiring that issue from time to time in order to save the interest?

Mr. UNTERMYER. They will be compelled to.

Senator HITCHCOCK. Why will that not be elastic?

Mr. UNTERMYER. An elastic currency is one that meets the needs of the country in elasticity. You might by this compulsory interest rate be retiring it when you most need it.

Senator HITCHCOCK. I understood you to say it was not elastic. You practically admit now it expands and contracts.

Mr. UNTERMYER. No; it can not expand over and above 50 per cent of the bank capital under your plan. That is not elastic.

In other countries they know what the total amount of probable commercial paper circulates. We know nothing about it. You are

refusing to take note of the difference between a country that passes laws based upon an experience of perhaps half a century or more with a given system and a country passing a law with respect to a new system, as to which it does not know what the amount of need is going to be.

Senator REED. In order that a thing be elastic, is it necessary that that elasticity should be illimitable?

Mr. UNTERMYER. The extent of the elasticity depends upon the point at which it is limited.

Senator REED. But there can be elasticity within limits. Can you not say yes to that?

Mr. UNTERMYER. I will if I think it is right.

Senator REED. I thought when I asked the question you would have to say yes.

Mr. UNTERMYER. When we are speaking of an elastic currency we are speaking of a currency designed to meet the needs of the country, and a currency that stops short is not elastic.

Senator REED. Now, then, no currency is elastic unless it will stretch far enough to exactly meet the needs of the country?

Mr. UNTERMYER. That is my opinion.

Senator REED. Will it stretch beyond that?

Mr. UNTERMYER. I think not.

Senator REED. If it did, it would be a very dangerous thing, because it would mean inflation?

Mr. UNTERMYER. Yes.

Senator REED. Therefore, in order to have a system elastic, or a safe currency, you must have one where something, either the law of commerce or the law of the country, has fixed a limit?

Mr. UNTERMYER. The law of commerce; that is the only kind of elastic currency I can conceive of.

Senator REED. I think I understand you about elasticity. You say that nothing is elastic unless it will stretch far enough to absolutely meet every need of commerce?

Mr. UNTERMYER. Now, you are rather magnifying the definition. I said that an elastic currency is one that meets the legitimate needs of the commerce of the country.

Senator REED. I said every need.

Mr. UNTERMYER. No; I do not think you need provide for the possibilities of some cataclysm, because you can not always foresee that.

Senator REED. You do not want to foresee meeting that?

Mr. UNTERMYER. Yes, we do; but human intellect has never been able to accomplish that.

Senator REED. You do not want to provide a currency elastic enough to meet a cataclysm?

Mr. UNTERMYER. One that might be looked forward to, yes; but one that is not within our conception we can not provide for.

Senator REED. Then there is to be a limit in order to have a currency that will stretch far enough, and not go beyond that point. There must be a limit, and you would place that limit; you would regulate that stretching point by the laws of trade and commerce rather than by the laws of the country?

Mr. UNTERMYER. No; I would regulate it by the laws of trade rather than by the arbitrary capital of certain banks.

Senator REED. Well, by the laws of trade. That brings us to the question of what are the laws of trade. Nobody knows what they are. They ebb and flow, these tides of demand and of activity, and they sometimes are greater and sometimes are less. You have to have something to standardize them by, and I understood you to say that the limit you proposed was that this currency should be based upon what you term prime commercial paper?

Mr. UNTERMYER. Upon commercial paper.

Senator REED. Of course, the question arises at once what class of paper will be called commercial paper; that is, how you are going to define it. I understood you to want to put a limited meaning upon that; that is, that it should be paper that represents actual purchases and sales of goods?

Mr. UNTERMYER. Of a commodity of some kind that is going into consumption.

Senator REED. You do not know how much that is?

Mr. UNTERMYER. No; you can not know definitely.

Senator REED. And you could not tell us any way in the world by which it could be determined, when a piece of paper was offered to a bank, whether it actually represented a commercial transaction, unless it had a bill of lading attached to it?

Mr. UNTERMYER. Oh, yes. We discussed that the other day.

Senator REED. You said the other day you had formed some judgment as to how you could tell who emitted the paper, and in that way a banker could tell something about it, and yet I think you frankly admitted the other day that if a piece of paper was emitted by Armour & Co., it might be for a purchase of cattle that were on their way to the market, or it might be for something else, and the banker might not know which.

Mr. UNTERMYER. That is within the range of possibility, but, as I said the other day, there are means of determining with fair accuracy what is commercial paper. They do it all over the world, and there is no reason why we should not be able to do it.

Senator REED. Without going into the question as to whether that is a proper limit or not, you can not tell us of any human being who has ever undertaken to tell us what the aggregate of that commercial paper is in this country, or what it was throughout the world, at any one time?

Mr. UNTERMYER. I can not tell you. I do not know what statistics there are available on that subject.

Senator REED. You have never seen them?

Mr. UNTERMYER. It does not follow that there are not any in existence.

Senator REED. I want to put this to you as a prudent man, and assuming that you had the responsibility of writing a currency system for 100,000,000 people, if you would ever base that currency system absolutely upon an unknown quantity?

Mr. UNTERMYER. I do not think the laws of commerce are an unknown quantity.

Senator REED. The amount is unknown.

Mr. UNTERMYER. I would base it unhesitatingly upon the amount of genuine commercial paper that would be proper for currency, with the safeguards of this bill, and I should not do anything that experience has not demonstrated to be wise.

Senator REED. You say you would do nothing that experience had not demonstrated to be wise. Has any country in the world ever gone to a system which proposes that you can take every piece of commercial paper that is extant, and setting aside a 33⅓ per cent gold reserve, issue money against that paper, and then, when you have issued that money and loaned it out and gotten more money for it, you can again issue money upon the paper thus received, setting aside 33⅓ per cent, and that system continued until the 33⅓ per cent gold reserve has equalled the original capital. Has any country in the world ever done that?

Mr. UNTERMYER. I do not concede the accuracy of your premises.

Senator REED. Whether you do or not, just let me know, if you will, whether any country has ever done that?

Mr. UNTERMYER. The particular thing that you are talking about no country has done, but other countries have done and are doing a far less conservative thing in the way of issuing currency.

Senator REED. Possibly; but I am talking about this bill. I am talking about whether we have an experience just like what I understand this bill to be. You say you do not think that what I say is possible under this bill. I do not care to dispute that with you, because my mind on that is irrevocably made up, that what I have said is within the possibilities of this bill, not necessarily within its probabilities.

Mr. UNTERMYER. But you have the experience of countries as to the value of commercial paper as a basis for currency. You have not any country in which they set precisely aside 33⅓ per cent of gold—that particular proportion—against commercial paper, and when you ask a question based upon a premise of that kind there can be only one answer to it.

Senator REED. Mr. Untermyer, do you think that any country having a fairly satisfactory system, under which it has made more rapid advancement than any other country in the world in wealth, in population, in all that tends to upbuild the race of man; do you think that it is ever safe to just completely revolutionize that system? You have got to deal with an unknown quantity, and that unknown quantity to be the very basis for the circulation of the country. Would it not be wiser and more prudent to at least get somebody who could make a reasonable guess, within a few hundred millions of dollars, of the amount of commercial paper you are going to issue your money against?

Mr. UNTERMYER. We know or ought to know what the amount of commercial paper is in the banks to-day.

Senator REED. But we do not.

The UNTERMYER. The statistics of the banking department would show what commercial paper is in the national banks.

Senator REED. Taking the commercial paper, taking the notes in the banks that are signed by individuals or by one or more individuals it would be equal, as I ran over the figures somewhat hastily, to something over two billion and a half of that class of paper. Of course, you know and I know that money could be issued against that particular class of paper and banks could convert their other paper into that particular class, and if you call that commercial paper we might have a currency here of six or seven billions of money.

Mr. UNTERMYER. Only a fraction of outstanding paper is strictly commercial paper within the meaning of that term as I understand it and would apply it.

Senator NELSON. Do you call these stock loans, call loans on stock or bond collateral—do you call that commercial paper?

Mr. UNTERMYER. Certainly not; that should be rigidly excluded. They are rigidly excluded by the bill.

Senator REED. I do not care very much for the present to pursue this particular line of inquiry, but I do want to invite your thought and attention to another proposition, and that is to the very effect of this bill when it first becomes operative. I am going to take some actual figures.

Mr. UNTERMYER. I thought we were going on first with this subject of the so-called Hitchcock plan. Or would you rather that that be interrupted here? I had just begun to state what my objections were to the Hitchcock plan.

The CHAIRMAN. Senator Reed was not present this morning when it was agreed that you should continue uninterruptedly with your statement.

Senator REED. There is one phase of this bill which has not been inquired into very much, and I thought you could throw some light on it. I think you ought to be able to give us some light upon it.

Senator NELSON. On this particular question I want to call your attention to the fact that neither in England, France, or Germany, or any other of the great countries, is the circulation based upon the theory you advanced—that is, upon the volume of commercial paper. In England it is founded partly on the national debt, and the rest is provided for, dollar for dollar in gold. In France it is limited by law, and so in Germany, and the same in the Scandinavian countries, which have a pretty good banking system. I do not know of a country where they base the volume of their paper currency issued, as it is proposed to be issued, on what you call commercial paper. It is is fixed by other rules than that.

Mr. UNTERMYER. In France and Germany the currency is issued upon commercial paper, but there is a limit to the amount that may be issued.

Senator NELSON. But there is no limit in this country?

Mr. UNTERMYER. There is a limit in those countries, and that limit was established after many years of trial, and when they knew the factors that would enter into it they knew how much commercial paper would be available, and they fixed an expanding limit, constantly increasing it as the increase of the business seemed to require it.

As this bill was first drafted, it contained a limit of $500,000,000 of this currency. I was opposed to that limit for only one reason, that it seemed to me that as soon as a demand was made for the issuance of currency, and, perhaps, half of that limit was reached, the banks would come in to get currency, even though they did not need any, because they feared the limit might be reached, and in that way it looked as though you might be encouraging inflation, by putting on a limit.

Senator NELSON. Just look at this situation, Mr. Untermyer—just imagine that all the State banks and trust companies and national

banks should enter this system. You would have 25,000 banks over the country with their great quantities of commercial paper walking up to the reserve bank, and throwing their notes, their commercial paper, on the counter and saying give me this new currency. Where would your limit be?

Mr. UNTERMYER. In the first place, if it was all genuine commercial paper, of a character entitling it to discount under the rigid rules as to what is commercial paper, the needs of the community, the fact that there was that paper would be a demonstration that that money was needed.

Senator NELSON. Let me stop you right there. How much of that commercial paper that the banks would come up and tender is subject to check on the books of the bank? How much of that is subject to check, and how does the reserve bank know that? You know how most of these deposits take place in these banks of commerce. The borrower gives his note for $10,000; he does not get the cash; he is given a credit as a depositor on the other side. Now, the bank owes him $10,000, and they walk up to the reserve bank and say, "We want $10,000 in currency on these notes."

Mr. UNTERMYER. The answer is that it is the business of the reserve bank, when it takes that note, to know for what it was given. That is what this board is there for, to sift that note and find out whether it is a kind of note that is entitled to be the basis of currency issue.

Senator NELSON. Does not every bank stand in this position: First, it owes $10,000 to its depositor?

Mr. UNTERMYER. Yes.

Senator NELSON. Then it gets $10,000 currency from the reserve bank. It will owe $10,000 to them upon the same credit—$10,000 to the depositor and $10,000 to the regional reserve bank. Is that not inflation?

Mr. UNTERMYER. This regional reserve bank is there for the purpose of protecting the issue of currency against that sort of thing. That is the great safety of it.

Senator NELSON. I simply brought these things up in connection with this question, and I think it is a most important question, this question of the inflation of our currency.

Mr. UNTERMYER. I agree with Senator Nelson that the most difficult thing in finance and the banking business is to determine what a commercial bill is without investigation. That is where the European countries have had their difficulties.

Senator REED. Mr. Untermyer, I want to see if I understand one other matter that is pertinent to this inquiry we are now immediately considering. I understand that your theory is that a vast proportion of the business of the country is done upon credit, the exchange merely of credits, and that that relieves us of the necessity of a large proportion of money that would otherwise have to be used.

Mr. UNTERMYER. Yes; and the more you can do on the basis of credit the less currency you need.

Senator REED. Yes. So that every commercial transaction does not necessarily mean that money is passed, because it may be simply credits that have carried that transaction through.

Mr. UNTERMYER. That is true of the bulk of all transactions.

Senator REED. What proportion do you think is done by credits in which the money is not actually handled?

Mr. UNTERMYER. I do not remember those statistics at this time. In the clearing house at New York, as I remember it, over 90 per cent is done by credit in the form of clearances or exchange of checks; 95 or 96 per cent.

Senator REED. Now, Mr. Untermyer, if 96 per cent of the commercial business is done upon credits and only 4 per cent with the actual cash, you propose to coin those credits into money or make it possible to coin them into money, and in doing that you have made it possible to get out 9.6 times as much money as is actually needed, have you not?

Mr. UNTERMYER. No. In the first place, I did not say that 96 per cent of all the commercial business of the country was done in credits. I said in the Clearing House Association of New York that was true.

Senator REED. I wanted to get back to the reason of that rule that we are speaking about concerning the issuance of money upon commercial paper because it refers to actual transactions. Now, I want to find out if that is a set rule. Notice that under that proposition every bit of commercial paper can be coined into money; it is possible to do it.

Mr. UNTERMYER. It would not last over 60 days——

Senator REED (interposing). But it is possible to do it. And yet that would probably be 10 times the amount of money actually used under the present condition, because now the check of the customer and the draft of the customer takes its place. So have you not based your currency upon a quality of commercial paper which is 10 times, in its volume, the amount of money necessary to be used?

Mr. UNTERMYER. On the contrary, Senator Reed, that is a most violent and it seems to me unsubstantiated assumption, for this reason, that this bill does not propose to substitute money for credit; this proposes to increase the use of credit. You do not mean to say that everybody who has a piece of commercial paper now in a bank is going to try to get currency for it?

Senator REED. Why not?

Mr. UNTERMYER. Because there is no such necessity; there is no such implication possible.

Senator REED. I am talking about the possibilities of it.

Mr. UNTERMYER. There is no such possibility. For instance, where a man now has to go to his bank and get money in order to settle the transaction, if the bank can give that man an acceptance that acceptance will pass current instead of money. This will substitute credit in a large number of instances for money.

Senator REED. You are talking about what happens under it. I am talking about your yardstick; your yardstick by which you are to measure the amount of currency in the country that may be issued is 10 times as long as the currency need be. That is a mixed metaphor, but it will express my idea.

Mr. UNTERMYER. I do not agree with you as to the idea at all.

Senator REED. You do not agree with the idea?

Mr. UNTERMYER. No.

Senator REED. Let us see. We are trying to get a system that will not expand unduly, and you have been telling us that the reason it would not expand unduly was because there was a limit to commercial paper.

Mr. UNTERMYER. Yes.

Senator REED. Now, I call your attention to the fact that while there is a limit to commercial paper, still the volume of commercial paper is 10 times as great as the volume of money, and therefore the limit which you propose is a limit 10 times greater than the needs of commerce, as at present engaged, and therefore you have not got any limit at all, for all practical purposes.

Mr. UNTERMYER. But just consider the assumptions in which you are indulging, Senator Reed. In the first place, you assume that every check is commercial paper; that because balances at the clearing house are adjusted by exchange of checks, instead of money, that these exchanges represent commercial transactions. Those checks do represent commercial transactions, but they do not represent commercial paper in the sense of unmatured paper at all. They have nothing to do with the subject in which we are dealing.

Senator REED. Eliminate the checks.

Mr. UNTERMYER. You based your hypotheses upon the fact that the New York Clearing House exchanges checks instead of money.

Senator REED. I have not base my hypothesis upon it, except as to degree. Is it not a fact now, that the commercial paper which is in circulation in this country to-day vastly exceeds the amount of money that is actually in circulation?

Mr. UNTERMYER. Certainly.

Senator REED. Then the limit which would be placed, and the currency to be issued being limited only by the amount of commercial paper, would be vastly in excess of our present circulation?

Mr. UNTERMYER. No; not necessarily so, because you are assuming in your question that all the banks are going to tumble out all their commercial paper onto the reserve banks, and that the reserve banks are going to tumble out all their commercial paper onto the Government and get currency for it. You are assuming that there are no checks on the loans that may be made or that the reserve bank is going to use its own capital, and that it is possible to take all the commercial paper of the country and dump it into the United States Government and say give us currency for it. You could not base any system upon such a succession of hypotheses.

Senator REED. There has been no succession of hypotheses at all. I am simply talking about the possibilities of the system; that is, I am talking about the fact that your yardstick or your circumference is so far extended that almost anything can happen within these limitations; by which I mean the commercial paper of the country, being so vast in amount and the amount of currency that may be issued being equal, therefore there is in fact no limitation upon the amount of paper which may be issued arising from the limitations upon the amount of commercial paper. You say there are other restrictions, and when you come to treat of the other restrictions of course the question arises what they are or what they may be. We might say by law that not more than a certain amount should be issued, but that would be a restriction by law and not by virtue of the commercial paper proposition. We might say that the interest rate should become high, but that would be a restriction in interest rate, and not a restriction by virtue of the amount of commercial paper. We might say that a board of bankers might say you must stop, but that would be a restriction by human agent and not by the amount of commercial paper. We might imagine almost any kind of re-

striction. The only thing I am concerned in is to demonstrate that limiting the circulation by the amount of commercial paper is in fact no real limitation. I wish that you or some human being could tell me the amount of commercial paper there is.

The CHAIRMAN. I would call the attention of the Senator to the report of the Comptroller of the Currency for 1912, in which, on pages 5 to 7, it gives the aggregate of the national-banking loans, and it shows that on June 14, 1912, on time paper there were 1,973 millions with two or more individual or firm names; and on time paper, single name, there was 1,198 millions. It comes about as near to an approximation of the paper handled by the national banks as could be given; but of that, of course, there would only be an apparently small part of it that would come under the description of commercial paper.

Senator REED. I would like to call the attention of the Senator and of Mr. Untermyer to the further fact that there is also demand paper with one or more individual or firm names——

Mr. UNTERMYER (interposing). That is not discounted.

Senator REED. Wait just a moment; 571 millions, and I will put all the figures in now. On demand, secured by stocks, bonds, or other personal securities—which is a very broad term—985 millions; on time paper, with two or more individuals or firms, 1 billion 973 millions; on single-name paper, one person, firm, or individual, without other security, 1 billion 198 million; on time paper, secured by stocks, bonds, and other personal securities, and on mortgages and other real estate security, 1 billion 275 millions. And I would like to call your attention also to the fact that nearly all of that paper could be readily converted into paper that would meet the requirements of this bill.

Mr. UNTERMYER. What makes you think so?

Senator REED (continuing). And it undoubtedly would be so converted in a very short time. Even those facts are of no real value. I think so, Mr. Untermyer, for this reason, that if I were the banker and expected to use this system at all, and I should put in a note that was signed by two men, I would say to the gentlemen who had signed the paper, individually, "Give me another indorser. I do not care much who he is, but you need another name on this paper, because I won't use it in a different form." I would say to the men that had hypothecated it, "Give me two indorsers and I will let you put this up to the man that indorses it and let him hold it instead of my holding it myself."

Mr. UNTERMYER. What are the banks going to do meantime with their billion of capital, and what are the reserve banks going to do with their capital and deposits?

Senator REED. What did the Bank of France do? They kept on loaning it out and kept on booming things until the miserable bubble burst and there was universal ruin.

Mr. UNTERMYER. But it has been generally conceded that the security for this issue is unexceptional and is probably the strongest security ever known in any country.

Senator BRISTOW. "Generally conceded." Please do not include me in that general concession.

Mr. UNTERMYER. I did not say "unanimously conceded."

Senator BRISTOW. I think the present national-bank currency is a great deal better than anything else that has been suggested.

Mr. UNTERMYER. I do not think it furnished anything like the security that this assures.

Senator BRISTOW. This has the obligation of the Government of the United States behind it.

Mr. UNTERMYER. True; but so has the currency proposed to be issued, and it has, in addition, a vast amount of security that the other does not possess. May I go on, Mr. Chairman?

Senator BRISTOW. There are some other points I would like to take up with you.

Mr. UNTERMYER. Will you take them up a little later, Senator Bristow?

Senator BRISTOW. It would be a little out of order to take them up after you have gone on to another question.

Mr. UNTERMYER. I would like just to say what I have been trying to say for three days and have not yet had the chance to say.

Senator POMERENE. I want once more to ask that the witness be permitted to make a statement and that he be cross-examined afterwards.

The CHAIRMAN. That was the sense of the committee as expressed in the beginning, but we have departed from it. Mr. Conant comes in in the morning by express agreement, and Mr. Untermyer has now been here three times from New York, and I think it would be better to give him a chance to say what he has to say.

Senator BRISTOW. I am perfectly willing to do it.

Mr. UNTERMYER. This statement will not take me long.

The CHAIRMAN. You may make your statement and then we will take it up further.

Mr. UNTERMYER. I want to summarize the recommendations which I have to suggest in respect to this bill, some of which have already been stated by me and some of which have not been stated. First, that the reserve banks should have wider powers of rediscount than those enumerated in the bill and that the right to rediscount paper and get currency should be more restricted than is now suggested in the bill. That is, when paper is brought by the reserve bank to the Government for rediscount and for the issue of currency, that it shall be strictly commercial paper, and that commercial paper shall be defined differently from the way in which it is defined in the bill, as paper which a reserve bank can itself discount. I have no particular quarrel with the definition of the character of paper that a reserve bank may discount for a member bank except that I think it is rather loose and inaccurate in its definition and includes obligations that are not commercial paper; but when you come to provide that the Government shall issue currency on that character of paper thus defined, I think the definition is entirely too loose and that the Government should only issue currency upon commercial paper defined to be paper that represents an actual transaction in the purchase and sale of merchandise intended to go into consumption—paper that automatically in the course of trade discharges itself.

The CHAIRMAN. Will you read that last description of commercial paper once more?

Mr. UNTERMYER. I think I have described it a little better in this article contributed by me to the October number of the North American Review:

> Commercial paper, as I understand it, is that which represents an actual transaction in the consummated purchase and sale of merchandise intended for resale and consumption. It must answer the test of being an obligation that automatically discharges itself in the ordinary course of business.

The next suggestion I have to make is one that I think ought, to some extent, to be enlarged upon; that State banks shall be required, in order to become members of this system, to conform to the restrictions of national banks in the powers that they may exercise. That is to say, by way of illustration, that a State bank, when it becomes a member of the system, shall not be permitted to have branch banks, and that it shall be limited to the powers possessed by national banks. Otherwise you can not keep the national banks in the national system. You are now taking away from them practically the two only advantages they have over State banks—the right to Government funds on deposit and the right to circulation. Having withdrawn those two rights, they should be on a par with State banks that come into the system; otherwise, they would be likely to reorganize as State banks, and under this bill will get all the benefits of the system without the restrictions of a national bank. I think that branch banks in this country, especially in the larger cities, are not to be encouraged; they should be very much discouraged, because they tend to centralization of the control of money and credit and do away with independent banking. It would mean that in the great cities the powerful banks would monopolize the business to the exclusion of the small ones.

I have next to suggest that the stock dividend to the member banks on their stock holdings in the reserve bank should be increased from 5 to 6 per cent, and that they be given no participation in the ultimate profits of the reserve banks.

Senator NELSON. In lieu of the ultimate profits that the bill provides?

Mr. UNTERMYER. Yes, sir; in lieu of the ultimate profits that the bill provides. That is in lieu of the distribution in the ratio of 40 per cent to the banks and 60 per cent to the Government as now provided; that the banks be given a prior claim for 6 per cent in dividends out of the earnings and no contingent interest in the profits. It seems to me if they are allowed a contingent interest in the profits it means that the reserve banks are likely to be operated in competition rather than in cooperation with one another and for the public good. In that connection I suggest also the Government should not be allowed interest on its deposits if it is going to get all of the profits over and above the dividends to the shareholders. It will get its interest in the way of those profits. There is an apparent unfairness in giving the banks no interest on their deposits and giving the Government interest. Senator Reed's suggestion on that point that the Government should not be compelled to deposit all its funds in these reserve banks, ought also to be taken into consideration in this connection. The Government certainly ought not to be required to deposit its own stock of gold in these banks; it ought to have its stock of gold on hand in its own possession.

Senator REED. I am very glad you and I have agreed on one proposition. [Laughter.]

Mr. UNTERMYER. I think we agree on quite a number—if you would only say so. [Laughter.]

Senator REED. I will score this one and wait for another.

Mr. UNTERMYER. The next suggestion I have to make is that the reserve bank be accorded the right to buy domestic bills in the market; first, because that is the only way of really regulating the discount or interest rates, and secondly, because there are long periods when the reserve banks will not be called on by the member banks to any extent, when money will be easy, and they must have some way of utilizing their idle funds. It is inconceivable to me how you can regulate the discount rates unless you are able to go into the market and buy paper. If the banks in Kansas City, we will say, choose to get together—and I believe they have done such things in some cities—and say, "We will charge so much for money," the reserve bank is not going to be able to regulate the rates of money in Kansas City unless it can go into the market and buy bills of exchange and acceptances and in that way fix the rate.

Senator SHAFROTH. Do you bear in mind section 15?

Mr. UNTERMYER. Yes, I do; but I also bear in mind sections 14 and 16.

Senator SHAFROTH. That section reads:

> That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills and bills of exchange of the kinds and maturities by this act made eligible for rediscount and cable transfers.

Mr. UNTERMYER. Yes, sir. That seems rather meaningless, taken in connection with other provisions of the bill. In the first place, they can only buy in the open market bills that are made eligible for rediscount under this act; and the only bills thus made eligible for rediscount are bills indorsed by a member bank. But there is another clause at the end of section 16 that shows that reserve banks can not buy domestic bills in the open market.

Senator REED. Where is that?

Mr. UNTERMYER. At the end of section 16:

> All domestic transactions of the Federal reserve banks involving a rediscount operation or the creation of deposit accounts shall be confined to the Government and the depositing and Federal reserve banks, with the exception of the purchase or sale of Government or State securities or of gold coin or bullion.

Senator SHAFROTH. It was suggested that the words "prime bankers' bills" be stricken out and the words "commercial bills" be inserted in lieu thereof.

Mr. UNTERMYER. Where is that?

Senator SHAFROTH. In this section that I just read. Would that remedy the objection which you have?

Mr. UNTERMYER. No, sir; it would not.

Senator SHAFROTH. You would have to strike out the words "made eligible for rediscount"?

Mr. UNTERMYER. "Made eligible for rediscount," and then you would have to strike out the last paragraph of this section 16. Under this bill it is plain that whatever may have been the intention of

the framers, the reserve banks can not engage in the purchase of domestic bills; they can engage in the purchase of foreign bills. That is specifically permitted, and they should be permitted also to buy domestic bills.

Senator SHAFROTH. In order to control the rate of discount?

Mr. UNTERMYER. In order to keep down and control the rate of discount, and in order to use their idle funds. There are times when it will not pay the member banks to borrow from the reserve banks.

Senator SHAFROTH. Do you think that that would create a rivalry between the ordinary banks and the Government?

Mr. UNTERMYER. I think it would create at times a moderately healthful rivalry, to a limited extent, but the banks could offset that by going in and borrowing themselves, unless they abuse their monopoly of the market by getting together and jacking up the rate, and then te reserve bank could come in and stop that abuse. It ought to have that right. Of course the European government and quasi-government banks buy in the open market in competition with the individual banks.

Senator SHAFROTH. But the books have criticized very much the position, claiming that there is a great deal of feeling upon the part of the bankers; at least, one or two books that I have read in regard to the Bank of England. They said that it was a source of a great deal of discontent among the bankers of London.

Mr. UNTERMYER. I have no doubt that they would rather have the market to themselves.

Senator NELSON. Here is another clause in connection with what we have been discussing, on page 25, commencing at line 11:

> Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based on the exportation or importation of goods and which mature in not more than six months and bear the signature of at least one member bank in addition to that of the acceptor.

Mr. UNTERMYER. That refers to foreign transactions; we are speaking of domestic exchange, domestic bills; foreign bills are covered in both those clauses.

Senator NELSON. Yes; they are well covered.

Mr. UNTERMYER. There is no doubt about that. My criticism went to the failure to give power to the reserve bank to buy domestic bills.

Senator SHAFROTH. One difference between our banks and the European banks would be the profit that was made to the bank to the extent of 6 per cent. It would go really to the parties who put up the capital.

Mr. UNTERMYER. So that they would get the money anyway.

Senator NELSON. There is another, if you will allow me, in connection with this discount business, to call your attention to it. It is on page 30:

> Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve bank notes thus applied for, and issued pursuant to such application.

That presupposes that they are to get circulation up to the face value of the paper, does it not?

Mr. UNTERMYER. Yes.

Senator NELSON. Would it not be safer, and act as a brake, if you applied the same rule as you do to the discounting, that they should get currency for the discount value of the currency?

Mr. UNTERMYER. That is, the face of the paper?

Senator NELSON. No; not necessarily; oh, no. In amount equal to the sum of the Federal reserve notes. That would mean, if you construe the word "amount," not only the face of the note, or principal, but the interest that has accrued.

Mr. UNTERMYER. I think the fair construction of that, Senator——

Senator NELSON (interposing). Would it not be safer to apply the same rule as you apply for discounting and say, "In amount equal to the sum of the Federal reserve notes applied for and issued pursuant to such application"?

Mr. UNTERMYER. Deduct the interest, of course?

Senator NELSON. Well, to the discount value of the paper. That would cover it.

Mr. UNTERMYER. That would be a better term.

Senator NELSON. The discount value of the paper; because in that way it would be regulative, to a slight extent, as to the issue of the paper, if the discount rate was high; so it would be a sort of a brake. I illustrated it the other day to another witness in this way, Mr. Untermeyer: Supposing you are a Federal reserve bank and I am a member bank. I come to you with a bundle of papers and want a discount. You say to me, "I can not discount your paper and give you bills for it at a less rate than 8 per cent." I say, "If that is the case, I do not want your paper."

I come again next week and say, "I want some paper on these notes"; and you say, "I will do it for 3 per cent." And then I accept it. In that way the discount rate could be a sort of a brake upon the issuing of this currency.

Mr. UNTERMYER. Except this: You only lend the value of the paper less the unmatured interest—that is your idea, is it not?

Senator NELSON. It is just what you get if you discount it.

Mr. UNTERMYER. Except that the member bank expects to make a profit on the paper. It may have a rate of 5 per cent and may be getting from the reserve bank a rate of 2 per cent——

The CHAIRMAN. The chairman must remind the committee that we are breaking over our rule again.

Senator NELSON. I am sorry. I wish you would call me to time. I forgot all about it.

Mr. UNTERMYER. My next suggestion, Mr. Chairman, is that we ought to abolish this advisory council; the banks have entirely too much representation in this system, as it seems to me.

The CHAIRMAN. I announce another agreement with Senator Reed. [Laughter.]

Mr. UNTERMYER. We shall eventually agree all along the line. The advisory council, if it is to have no power, is a mere pretense. If it is meant as an entering wedge on which to get power when the auspicious moment arrives it seems to me that the inducement ought not to be there. There is so much power already in the banks; under this bill, so much more than one can find in any other system, that there seems little excuse for this advisory council, except as an entering wedge. I see it has already been availed of in the formal suggestion

at some of the bankers' meetings held lately, that two of the advisory council shall sit in Washington—in a way, supervise the acts of the Federal reserve board.

Senator NELSON. Is it not on the same principle as you gentlemen who come here to advise us?

Mr. UNTERMYER. I do not think it will work out that way. It is more like a suggestion from the railroads that they have two nominees to supervise the work of the Interstate Commerce Commission affecting them. There is no objection to the banks having as many advisory councils as they please. They can get up as many associations or committees as they choose; but why give them a legislative and official status in this system? The Government is entitled to pass upon the currency that it will issue without the advice or assistance of those who are applying for it. The banks are on one side of the table and the Government on the other in that transaction. The banks come along, through their reserve banks, and say, "We want currency for this paper." And the Government is to say whether it shall give them currency. Why should the banks be represented on both ends of that bargain? Why should they be so represented either officially or unofficially or in an advisory or any other capacity? This idea of an advisory council was a compromise born of weakness. The framers of the bill started out with sound, well-defined principles of absolute Government control of the issue of currency, but did not stick to them. If there is any sincerity in the bankers' claim that they do not now want any power (it was very different not so long ago but times have changed) except to look on and see what the Federal board is doing, they can do that just as well without having any official relation to the system as with this aimless provision. It has either an ulterior purpose or none at all.

The next suggestion on the subject of control is one that we took up a little out of order; that is, as to the power of the reserve board to remove directors of the reserve bank. Practically, they can not be removed, if you are going to leave these provisions under the present control. The three directors elected by the banks in class A are irremovable. The three of class B are all nominees of the banks, and if they are removed the member banks, and they alone, may substitute others in their place. Why should it be necessary to show that they have been guilty of a proven misconduct before they may be removed by the Government? The latter must rely upon these directors for information as to the character of the paper on which currency is to be issued, and it ought to have considerable to say about their selection. It ought to be able to remove directors of class B whenever, in the judgment of the board, they do not perform the functions that they were intended to perform. I do not think subdivision F, limiting the power of removal to incompetency, dereliction of duty, fraud, or deceit, should be in the bill. The limitation on page 8 is sufficient. It is as follows:

> The reserve board shall have power at its discretion to remove any director of class B in any Federal reserve bank if it should appear at any time that such director does not fairly represent the commercial, agricultural, or industrial interests of his district.

The next suggestion I have to make on the question of control relates to the election of the chairman. In one part of the bill it is

provided (p. 8) that the chairman shall be designated by the board—that is, the Federal board—and further on it is made doubtful whether he may not be put out at any time by the men elected by the bank.

On page 10 it is provided—

but the chairman of the board of directors of each Federal reserve bank designated by the Federal reserve board, as hereinbefore described, shall be removable at the pleasure of the said board without notice.

Whether that means the Federal reserve board or the board of directors is a little doubtful.

The CHAIRMAN. Yes; the Federal reserve board.

Mr. UNTERMYER. Does it not mean the Federal reserve board?

The CHAIRMAN. That is not the intention.

Mr. UNTERMYER. "But the chairman of the board of directors of each Federal reserve bank designated by the Federal reserve board——"

The CHAIRMAN. The Federal reserve board.

Mr. UNTERMYER. Do you think that means the Federal reserve board?

The CHAIRMAN. Yes.

Mr. UNTERMYER. I think it ought to state so more clearly.

The CHAIRMAN. It should state so.

Mr. UNTERMYER. The next suggestion I have to make is that the banks be not allowed one year in which to join the system. It is far too long and quite unnecessary, and is fraught with great peril and uncertainty to business.

Senator NELSON. What is that?

Mr. UNTERMYER. Under this bill the national banks have one year in which to elect whether they will join this system. The things that may happen in that time and the things that may be done to discredit and almost destroy this system are almost innumerable. What is the reason for allowing a year for a national bank to determine whether it will go into the system or not? Why is not 90 days enough? You may expect that the system will not go immediately into effect; naturally, the banks will hang back and see what is going to happen, and in the meantime you will have a great deal of uncertainty in the financial world, and unnecessary uncertainty. I can not conceive of any good reason why a year should be necessary for the banks to find out whether they want to go into this system or whether they do not.

I suggested the other day that there should be express power given to the Federal board to buy gold and to issue securities in order to do so, for the purpose of making good the obligation of the Government to redeem these notes in gold. As I understand it, under the present law they can buy gold and issue bonds in order to maintain the parity of gold with respect to the currency now outstanding. I do not understand that they have any power, under this bill, to buy gold for the purpose of making good their obligation to redeem these currency notes. On the contrary, this bill expressly provides that the currency notes can only be issued for commercial paper. Section 17, on page 29, provides:

That Federal reserve notes to be issued at the discretion of the Federal reserve board for the purpose of making advances to Federal reserve banks as hereinafter set forth, and for no other purpose, are hereby authoized.

And on the following page you will find that the only other purpose is for the making of loans on notes and bills accepted for rediscount under the provisions of section 14 of this act; so that they can not, and there is no power, as far as I can see here, to make good the obligation of the Government to redeem these notes.

Senator HITCHCOCK. That is, to have power to issue bonds?

Mr. UNTERMYER. Yes. I think I referred at a previous hearing also to the fact that the bill provides no central point for keeping the gold reserve and no practical way, therefore, of making good the obligation to pay in gold, and the suggestion that was made by me, and which I now repeat, in that connection is that the gold reserve of the several reserve banks should be kept at a central point, say, in Washington, credited to the different banks.

Senator NELSON. In the Treasury?

Mr. UNTERMYER. In the Treasury Department. It should belong to each reserve bank.

Senator NELSON. And deposited here?

Mr. UNTERMYER. Deposited here, where the Government can make good the obligation of the Federal reserve bank to redeem its note in gold.

Senator NELSON. That would save the Government from procuring the gold supply?

Mr. UNTERMYER. As long as the Federal reserve bank had the money. The demands upon it might be too pressing, and then the Government would have to redeem the notes anyway.

Senator SHAFROTH. That might tend to discontinue the competition of bidding for gold in 12 different centers.

Mr. UNTERMYER. Yes. My next suggestion relates to section 23. The bill provides for a very comprehensive system of bank examinations, which is very wise, but it does not provide in that connection against the abuse that was developed in the hearings before the Pujo committee of clearing-house associations undertaking to have their own bank examiners, and in that way to find out all the affairs of their competitors and know where loans were located, who were debtors, and how they could be dislodged, and where the collaterals were to be found.

Bank examinations should be limited to those conducted by the reserve banks and the Federal reserve board. If any clearing-house association wants any further examination, it can pay for it and get it through the Comptroller of the Currency, but the names of borrowers and the collateral that they hold should not be disclosed to competing banks through their clearing-house committees.

It is prolific of abuse, and it was very fully exploited in the testimony before the Pujo committee; that is one of the recommendations of that committee, which seems to be germane to this currency bill.

There are two or three of such recommendations that bear upon sections of the bill directly. There are many others that seem to me could be more advantageously taken up when you come to revise the banking laws and as a part of that system of revision rather than to engraft them upon this bill or to attempt to do so, such as that of interlocking directorates and other matters that would appear to be more legitimately a part of the banking-law revision.

It was for that reason, and also because of my anxiety to see this bill pass without delay, that I suggested that the legislation recom-

mended by the Pujo committee should not be taken up in connection with this bill. There are only two of them that are intimately germane to sections of the bill. This one in which you are dealing with bank examinations is one of them, and the other is where you deal in this bill with the powers of the Comptroller of the Currency. In the latter connection my suggestion would be that you insert, on page 20, an amendment to the banking bill which was introduced at the last session of Congress and passed the House of Representatives and is now in the Senate, to the effect that the visitorial powers over banks shall not be possessed solely by the Comptroller of the Currency, but may be exercised by either branch of Congress or any committee of Congress.

Senator NELSON. Or by the courts?

Mr. UNTERMYER. Or by the courts. We found in the Pujo inquiry that when the committee wanted to find out about the conduct of the banks, the loans to officers and other abuses, for the purpose of determining what legislation should be suggested by way of amendment to the banking laws, they were met by the bankers with the objection that the Comptroller of the Currency is the only officer of the Government who is subject to no sort of restriction whatever; that Congress, it was said, had delegated the visitorial power over its own regulation of the banks to the Comptroller of the Currency, and had no longer any power to investigate its own creatures. That is the extraordinary situation created by that provision of the banking law. The visitorial power over the banks is vested solely in the Comptroller of the Currency, and Congress can not investigate the banks and find out what they are doing as a basis for remedial legislation. My suggestion is that that amendment which passed the House at the last session should be inserted here on page 20 of the bill, so that if the Congress wants to examine into the powers of its own creation it may be permitted to do so. The present situation is intolerable.

Senator NELSON. You put that at the end of section 11?

Mr. UNTERMYER. At the end of section 11.

Senator NELSON. On page 20?

Mr. UNTERMYER. Yes, sir.

I suggest further that the Government be not required, as under the bill at present, to apportion the Government deposits equitably and ratably between the reserve banks, but that it have a discretion——

The CHAIRMAN (interposing). What page have you there?

Mr. UNTERMYER. I have not the exact page.

The CHAIRMAN. Under the heading "Reserve board."

Mr. UNTERMYER. I think that is on page 28—"distributing them so far as practicable equitably between different sections." That is lines 24 and 25, on page 28.

Senator NELSON. That would simply be a suggestion to the board. It would still be in their discretion.

Mr. UNTERMYER. You mean to the Government?

Senator NELSON. It is simply laying down a sort of a moral rule.

Mr. UNTERMYER. It seems to be laying down something that they would almost be bound to follow, as the provision now stands, and they ought not to be required to follow it, because the Government

should have the power to help out the reserve bank in any particular district by depositing its funds there.

Senator SHAFROTH. I regard your suggestions as very valuable, but I am afraid they will not be of advantage at all unless you take one of these bills and just mark out exactly where these changes are and label it "suggestions made by Mr. Untermyer." I would be very glad to have you do so. That will be of great assistance.

Senator NELSON. Send us such a bill, and then we will have it printed with these amendments for the use of the committee.

Senator SHAFROTH. I think that is a good suggestion.

Mr. UNTERMYER. I have the further suggestion, Mr. Chairman, that you insert in this bill alternative directions for public stock offerings in these reserve banks. That is to say, that if within a given time the national banks do not subscribe to its stock and come into the system, then the committee of organization named in the bill shall have the right to make public offerings of this stock, giving to it a preferential 6 per cent dividend, and that in that event the voting power shall be among the shareholders who take their interests in the bank, and that the bank shall have the right to take deposits and make discounts and go into the banking business, as the European banks go into the business, in competition with other banks. In other words, the national banks should have the first opportunity of going into this system, and if they do not want to go in, there is no reason why the work should halt on that account.

Senator NELSON. Might not some big bank in that way secure a control or monopoly of the reserve banks? Take two or three big banks in New York City: If there was no limit as to what they could buy, would they not get a control of the banks?

Mr. UNTERMYER. No; because the voting power would be arranged as it is in these European banks. For instance, in the Bank of England and the Bank of France and the Bank of Germany no holding of over 500 shares in a single interest has any vote on his excess holdings. He has 4 votes up to 500 shares. The voting power is so arranged that the small shareholders control the banks. If you offer this stock to the public it will prove a very attractive security. The bank being under Government control, with 6 per cent return practically assured to the stockholder, with the control of the bank reserves and Government deposits, it will, in my opinion, be subscribed many times over. No corporation should be eligible as a stockholder and no one person should be permitted to own more than 1,000 shares.

Senator HITCHCOCK. Guaranteed by the Government?

Mr. UNTERMYER. Oh, no; I should not guarantee 6 per cent; I should not make any guaranty. It will not be necessary. It would be worth 200 if guaranteed. The bank will have the reserves anyway. The national banks will have to put their reserves in there. It will have the Government funds and its share of capital, and it will be larger than any single bank; at least, some of the reserve banks will be larger than any single bank. The banks should have the alternative of going in, and it seems to me they will be more likely to avail themselves of the opportunity if it can be made plain that the bank is going to be organized; with them as shareholders if they prefer, but otherwise without them.

Senator CRAWFORD. Give them first 90 days?

Mr. UNTERMYER. Ninety days in which to subscribe this stock, and if they do not subscribe it I should allow the public to subscribe it. Of course, you will have to have rather elaborate provisions as to voting if the public subscribes. It would require quite a careful drafting of these additional provisions of the bill.

I have no other suggestions to make at this time.

Senator NELSON. There is one point to which I want to call your attention. I was in hopes you would mention it yourself. I want to call your attention to section 16, page 28, as follows:

That all moneys now held in the general funds of the Treasury shall, upon the direction of the Secretary of the Treasury—

be transferred to these banks. Would not that take all the gold that the Government has? I do not mean the gold that represents the gold certificates; but would it not take all the other gold?

Mr. UNTERMYER. I think I did cover that, sir, at a previous hearing. I think I suggested that I thought that these funds should not be required to be deposited.

Senator NELSON. There is a reserve of $150,000,000 of gold for our greenbacks. That money ought to be kept in the Treasury and not transferred to these regional banks, and the bill ought to be amended in that respect.

Mr. UNTERMYER. That is what I intended to say. I thought that that had been covered. The gold that the Treasury has ought not to be deposited in these banks.

Senator NELSON. None of it gold outside of the gold certificates?

Mr. UNTERMYER. I did not say that that should be deposited in the reserve bank now. They have nothing to do with it. The Government is a warehouseman for that.

Senator NELSON. It is a warehouseman, and it should not transfer its bailment to these bankers.

Mr. UNTERMYER. That is quite right.

Senator WEEKS. Mr. Untermyer, will you tell the committee why you think it preferable for the Government to issue Treasury notes and loan them to the banks rather than for the reserve board, by proper regulations, to issue these notes and make them a bank note instead of a Government note?

Mr. UNTERMYER. In the first place, the security of the note is very much promoted by its being a Government obligation.

Senator WEEKS. Is not that security sufficient to hold it?

Mr. UNTERMYER. There may be some differences of opinion as to that. Some of these reserve banks will be weak and some will be strong; and if you are going to have two different forms of obligations out, in the way of these notes, you may have one weak bank that will discredit the notes of all the banks. The Government is really a guarantor of these notes. You can not get away from the proposition that it would have to pay in the end.

Senator WEEKS. What is the difference between a proper bank note and a credit on the books of the bank?

Mr. UNTERMYER. It depends on the way in which it is issued. I should say the difference was that the Government is really morally obligated to take care of the note, anyway.

Senator WEEKS. I should say so, too, but is that desirable or requisite?

Mr. UNTERMYER. I think it is requisite. I think it is desirable, because of the fundamental principle that the issue of the currency of a nation is a governmental function.

Senator WEEKS. Is it a governmental function in itself, or simply a supervisory function?

Mr. UNTERMYER. It seems to me that it is essentially a governmental function.

Senator WEEKS. What other Government issues currency?

Mr. UNTERMYER. The other Governments issue it under cover; that is about all; because they have a vast debt, and are on the verge of war all the time, and they do not know when their own Government obligations may be discredited, and they do not want the two intermingled. We are not in such a precarious situation.

Senator WEEKS. Is that a reason why we should impose on the Government something which does not seem desirable, under more favorable conditions, in other countries?

Mr. UNTERMYER. I think it is a choice of systems. If you are going to have one central bank in this country, with all the power and strength that that represents, you might have the notes issued by that bank; but if you are going to have local bank government, such as you have under these reserve banks, some weak and some strong, the credit of the Government has to go back of the notes in order to keep the obligation beyond question. It might as well go directly back of them as to go back in the form of a guarantor.

Senator WEEKS. Then why not go further, and let the Government issue the currency of the country?

Mr. UNTERMYER. That is what it is doing, under the terms of this bill.

Senator WEEKS. I know, but without any connection with the banks.

Mr. UNTERMYER. You can not mobilize the reserves without the interposition of these banks.

Senator WEEKS. I think there are still people who believe in issuing greenbacks.

Senator SHAFROTH. With a good reserve of 50 per cent.

Mr. UNTERMYER. I do not think it makes any difference what color they are, if they have the requisite gold reserve behind them.

Senator WEEKS. When I speak of greenbacks I mean, of course——

Mr. UNTERMYER (interposing). You mean fiat money. I do not know but that there are people who believe in that.

Senator WEEKS. Are we not making a mistake in not looking ahead? We are doing something that is going to last 25 or 50 or 100 years, very likely much longer than that.

Mr. UNTERMYER. I hope so.

Senator WEEKS. I hope so, too. But are we not making a mistake to do anything that has a circulation fundamentally involved that is probably wrong from the experience of others?

Mr. UNTERMYER. Of course if one concedes these premises, that it is probably wrong, we need not go further. We ought not do it. But we think it is probably right, those of us who are advocating this bill. It is right because it is not going to put any strain upon the credit of the Government. The notes are amply secured by collateral and have so many checks upon them; the collateral is so

good that the Government credit is not going to be hurt by having that obligation outstanding in addition to its other obligations, whilst it will assure the absolute stability of the currency that is being issued. It is the only way of providing a stable, safe currency without the perils and pitfalls of a central bank.

Senator WEEKS. You just said a few moments ago that there might be some question about the security.

Mr. UNTERMYER. I am speaking of the responsibility of the reserve banks. You will get reserve banks here, perhaps, one or two of them, with not much over $5,000,000 of capital——

Senator WEEKS (interposing). We ought not to.

Mr. UNTERMYER. But you will. Under this bill you may, as I say, get reserve banks that have not over $5,000,000 of capital and that will have currency notes outstanding. It is likely to lead to discrimination after a while by cautious people as to which notes they will take and which notes are doubtful, and you will get into a condition where your currency will not be regarded as absolutely safe and beyond question, as it ought to be.

Senator WEEKS. Let me ask that question in another form. What harm would result if we arranged to issue these notes through the reserve board by some kind of machinery without the Government having anything to do with it?

Mr. UNTERMYER. The first harm would be that the banks would immediately say, "We are issuing these notes and we ought to have control of the system." That would be their first demand.

Senator WEEKS. I am not in favor of that.

Mr. UNTERMYER. But it would be pretty hard to stop that demand. They are very ingenious and very resourceful, as you all know. They are plausible, and sometimes they are right and often very wrong.

Senator WEEKS. I would put it the other way—often very right and sometimes very wrong.

Mr. UNTERMYER. We will compromise and say that they are wrong as often as they are right.

Senator WEEKS. What have you to say about the number of banks, Mr. Untermyer?

Mr. UNTERMYER. That is a very debatable question, Senator Weeks. It has been, to my mind, a question as to whether there should be 12 banks or less.

Senator WEEKS. Is there any advantage in 12 over 8?

Mr. UNTERMYER. Yes.

Senator WEEKS. What?

Mr. UNTERMYER. This, that you would get the directors of the bank in closer relation to the member banks and to the paper that they are to pass upon. The more banks you have the more intimate ought to be the knowledge of those directors of the business of every member bank and of their customers. There is that advantage, and that is a very important one.

Senator WEEKS. If that was serious, there ought to be 20 or 30?.

Mr. UNTERMYER. You can carry that proposition as far as you please. There must be a limit, so that these banks will have strength and so that you can mobilize your reserves. If you have too many banks you can not do that.

Senator WEEKS. I intended to call to your attention something that was discussed in connection with what was known as Senator Hitch-

cock's plan, about some man at the subtreasury who could pass on the paper presented by 800 or 900 banks. That was the suggestion that was made. Is it not probable that such a man would be immediately sent for, if he was competent, to go to the head of the largest bank in the country? Is it possible that any man could do that, in other words?

Mr. UNTERMYER. Not if he were passing on the paper presented by 800 or 900 banks. I do not believe any man could do that; but under this system, all we are passing on is the responsibility of the banks; not of their customers so much as of other banks.

Senator WEEKS. I was talking about the Hitchcock plan.

Mr. UNTERMYER. That was one of the imperfections that seemed to me to exist in connection with that plan. But the chief objection to that plan is that it does not utilize the reserves of the country. It leaves that subject in the hopeless and helpless condition it is now in, where centralization of the control of credit can go on. It has already gone much too far for the comfort and safety of the country.

Senator WEEKS. Do you think that there should be any tax on circulation?

Mr. UNTERMYER. You mean the currency that is to be issued here?

Senator WEEKS. Yes.

Mr. UNTERMYER. There should be an interest rate on it.

Senator WEEKS. Is not that a direct tax on business?

Mr. UNTERMYER. No; it does not seem so to me. It is not a tax on business at all, because banks would not be able to get the money but for this currency issued to them, and it is an aid to business. The bank will get, we will say, 5 per cent on its loans and it will pay 2 per cent. The bank makes 3 per cent.

Senator WEEKS. Would not that have the effect of making money higher?

Mr. UNTERMYER. I should say not: on the contrary, it would make money cheaper, because there will be more of it. If the bank did not have this means of getting the currency, it could not lend this additional money. Inasmuch as it is really lending the Government's money, it is only entitled to the difference between what it has to pay for the money and what it farms it out at.

Senator WEEKS. If it did not pay anything for taking the money, but farmed it out at a low rate, would that be to their benefit?

Mr. UNTERMYER. It would not necessarily, and there is no reason why banks should be given money without interest to lend as they choose.

Senator WEEKS. I am not so sure about that.

Mr. UNTERMYER. It gets deposits now for nothing, and it does not lend money out any cheaper on that account. It does not pay interest on all its deposits. The rate will always depend on the demand, and not on what the money costs the bank.

Senator WEEKS. Well, but when it pays 2 per cent, or when 2 per cent is required, under present regulations of the Treasury Department, the banks do not take the money.

Mr. UNTERMYER. Yes; but when you come to measure the alternative between the two conditions, not having money to loan at all, or having a place to get it by paying something for it, surely it is better for the business of the country that the banks should be able to get

immediate money, even though they pay a modest interest rate on the money. I think it is a relief to the business interests of the country, and a very important relief.

Senator WEEKS. I think the business interests of the country ought to be relieved, and ought to be able to get currency, but my opinion is that taxing circulation is unscientific and imposes an additional obligation upon the borrower.

Mr. UNTERMYER. But on the other hand, if you charge nothing on this currency, the banks will turn over everything they have.

Senator WEEKS. Oh, not necessarily. You can restrict the amount that the banks can use, and I personally am in favor of restricting the amount. While I do not think it is scientific, exactly, still I think when we are starting a new system like this you have got to do it in a moderate way, and my impression now is I would be in favor of restricting the amount of rediscounts to the capital of the bank.

Mr. UNTERMYER. You mean the amount of discount at the reserve banks or the amount for which it can get currency?

Senator WEEKS. The amount for which it can get currency.

Mr. UNTERMYER. Don't you think there is a sufficient restriction now in the discretion vested in the Federal reserve board and in the gold-reserve requirement? If you restrict it further, for instance, if we put an arbitrary amount that may be issued, the time is going to come when you will simply be inviting banks to take out currency just for the purpose of safeguarding themselves without really needing it.

Senator WEEKS. I very much doubt that, and, furthermore, I am opposed to leaving that kind of regulation to the Federal board. I want to help the bank in Kansas, New Hampshire, or any other place that has paper that comes under the requirements of this act, so that it will be able to go somewhere and get accommodations by right of law and not by the say so of some board in Washington.

Mr. UNTERMYER. But is that really ever practically possible?

Senator WEEKS. I think so.

Mr. UNTERMYER. Somebody must always pass on the character of the paper.

Senator WEEKS. Yes.

Mr. UNTERMYER. Then they will get very exacting as to the character of the paper when they do not want to lend. I would put a centain amount of discretion somewhere. There will always be a way found for not issuing paper when it is not wise to issue it.

Senator WEEKS. My judgment is the discretion will be based on the raising or the lowering of the discount rate. I think the raising of the discount rate even a quarter of a cent is going to be so great that it will compel the banks to limit their own loanings, and therefore their asset rediscounts.

Mr. UNTERMYER. Then, if you raise the rediscount rate, you are taxing the country right straight along. That is the very tax we are talking about.

Senator WEEKS. You do not raise the discount rate permanently; you raise it temporarily.

Mr. UNTERMYER. That is a tax on the currency.

Senator WEEKS. Raising the discount rate is a charge on the public money.

Mr. UNTERMYER. You would charge something on the currency and keep raising it. Why is not that taxing the currency?

Senator WEEKS. That is taxing the borrower to that extent. It is restraint.

Mr. UNTERMYER. Yes; but it is a tax all the same.

Senator WEEKS. Now, have you defined commercial paper as you think we should in the provisions of this bill?

Mr. UNTERMYER. I have defined commercial paper as it is defined in the markets of the world; but if you were to limit the issue of currency to that kind of paper you would not get very much currency issued. It seems to me you have got to have currency issuable for one or two other purposes. One would be to a limited amount for grain and cotton in warehouses and staples that go into consumption. I think that whilst that is not commercial paper in the strict acceptation of the term, it is the very best kind of security for which currency could be issued that I know of.

Senator NELSON. I want to suggest to you here, if you adopted Senator Hitchcock's plan you would practically get the same amount of currency as developed by the last statement—of this kind of currency—as the amount of bank notes now outstanding. Your proposition was three-quarters of the capital, was it not?

Mr. UNTERMYER. With a third or 50 per cent of it set aside in gold.

Senator NELSON. Now, if you followed Senator Weeks's idea, and measured it by the amount of capital of the banks, the circulation it might extend to is $1,000,000,000 in round numbers, or not much more than that. If you base it on commercial paper, outside of real estate loans, the statement of the comptroller shows that all the banks—national, State, and trust companies—have outstanding loans and discounts of about $11,000,000,000. If you base it on that, you do not know where you are going to land.

Mr. UNTERMYER. I do not think you will find any $11,000,000,000.

Senator NELSON. Yes.

Mr. UNTERMYER. Not eligible for discounts.

Senator NELSON. I do not say all of it. But I say the loans and discounts; even if you assume only half of it, you would have $6,000,000,000.

Mr. UNTERMYER. I would not assume there would be over a billion dollars of it; but the Federal board can put the brakes on when ever it sees fit.

Senator NELSON. If you limit it so they could never take out currency in excess of the capital of the bank, you have some fixed limitation. And you would have then a great deal more paper currency than you have now. You could lend out a billion dollars and a little over, and you now have something over $700,000,000.

Mr. UNTERMYER. $746,000,000 of bank-note currency, as I recall the figures.

Senator WEEKS. I should have said I would require a 50 per cent gold reserve behind that.

Mr. UNTERMYER. So that really we would only get $500,000,000 of currency by that process.

Senator WEEKS. My judgment is that the maintained reserve would regulate the amount of circulation that would be issued.

Senator NELSON. There is another difficulty, Mr. Untermyer. You speak about commercial paper of a certain kind. In Europe, where most of their commercial paper, nearly all of it, is in the form of bills of exchange and drafts, it is more easily regulated; but how can you tell when a member bank goes up to the counter of the regional reserve with a bundle of notes—how could you tell by inspection of those notes they are given for a commercial transaction instead of some other transaction?

Mr. UNTERMYER. We went into that very fully the other day, Senator Nelson, while you were here, if I remember rightly. I think we spent the whole afternoon discussing that.

Senator NELSON. Yes; but I do not see how you can tell it. There is one kind of paper, a bill of exchange drawn against a shipment of commodities of one class or another; in that case you can always determine it, but that is only a limited amount of paper, and that comes in the form generally of drafts and bills of exchange—in land bills of exchange or foreign bills of exchange. But when you come to the great mass of our paper—promissory notes—how difficult is it to determine whether those notes are given for a commercial transaction or for a stock-loan collateral or for bonds or for something of that kind, or given for any other matter; given not for trade or commerce, but given for other purposes?

Mr. UNTERMYER. That is what the directors are there to investigate.

Senator NELSON. Suppose a company comes in. They want to put up a lot of buildings and secure the machinery for it. They give their note for it. That is tying it up.

Mr. UNTERMYER. Certainly. It is not commercial paper at all.

Senator NELSON. But how can you tell by a mere inspection of the security?

Mr. UNTERMYER. That is what the directors are there for. That is what they do in other countries. They investigate; that is their problem.

Senator NELSON. You can see what a difficult problem it is under our system. If we had the system they have in Europe of having it in the form of bills of exchange——

Mr. UNTERMYER (interposing). With an acceptance.

Senator NELSON. With a drawer and an acceptor, followed by the bills circulating with a lot of indorsers; that is a simple thng, because there, first the acceptor is liable and then the indorsers and then the drawers.

Mr. UNTERMYER. How long would it be before the banks would insist on that form of bill instead of the other? If they knew that was a more liquid asset than the other, it would soon come around.

Senator NELSON. That would revolutionize our whole system of commercial paper.

Mr. UNTERMYER. It would soon come around.

Senator NELSON. I only suggest these things to you, Mr. Untermyer.

Mr. UNTERMYER. We discussed that subject the other day, Senator Nelson, very fully with Senator Reed.

Senator BRISTOW. Mr. Untermyer, when Senator Hitchcock was interrogating you, you spoke of referring to the plan of each bank gong direct to the Treasury to get the currency and having an agent in each one of the reserve cities. You said you thought it would be

giving too much power to leave it to the whim of the Treasury official.

Mr. UNTERMYER. Of one individual; yes.

Senator BRISTOW. I think Senator Hitchcock very plainly brought out the idea that I have heard suggested in these hearings, that if this be left to the whim of one Government official, or, as you would suggest, six or seven——

Mr. UNTERMYER (interposing). Nine.

Senator BRISTOW. Nine.

Mr. UNTERMYER. Yes; to do the work of passing on this paper.

Senator BRISTOW. The law prescribes what kind of paper may be used, and then the Government official determines whether or not the paper complies with the law, and that is all that he would do.

Mr. UNTERMYER. Oh, but a law could not provide that John Smith's paper was good and John Brown's was not. You certainly would not have a law that would compel the issuance of currency for paper that conformed to certain legal provisions without regard to the responsibility of the man. You must have an investigation. In the very nature of things you could not have any rigid law. The mind of man could not compass any such subject.

Senator BRISTOW. Do you not think the law could define what kind of securities—municipal bonds, State bonds, county bonds, and commercial paper—fixing a certain per cent of it?

Mr. UNTERMYER. Certainly; but when you come to commercial paper, some of it is not worth the paper it is written on, and there is some that is good. Somebody must pass on the responsibility of these people. It is not as though you had behind you all the combined strength and responsibility of dealing with the reserve banks. If you let down the bars and have to rely on the single bank and its customers, you must investigate the paper. That impossible task would then fall upon the Government. It would mean chaos.

Senator BRISTOW. Reasonable investigation.

Mr. UNTERMYER. Who is there to do that but this Treasury official?

Senator BRISTOW. Well, that investigation would be made by the Treasury official and he will give the bank a standing, whatever standing it is entitled to, and finally the board of directors—you do not expect any one of the directors to investigate the condition of the banks, do you?

Mr. UNTERMYER. What I expect is this: I expect these nine directors will have behind them the responsibility not only of the individual bank and of their own reserve bank and of their shareholders and all the assets of this reserve bank, but they will be in touch with the banks in their region and their customers in a general way so as to know about this paper; and you will have nine men's minds instead of one man's mind, so that when the paper is offered to the Government it will be fully secured and thoroughly sifted.

Senator BRISTOW. That is a beautiful theory to one that is not acquainted with the vast region this territory will cover.

Mr. UNTERMYER. I am acquainted with it, Senator Bristow.

Senator BRISTOW. Of course, you feel you are.

Mr. UNTERMYER. I have traveled over it a number of times, have had intimate business and professional relations with many sections of it, and I think I know something about it.

Senator BRISTOW. If you think it will be unsafe to trust the responsibility of one bank, why would it not be practicable to take a group of banks—the bankers in this country? The bankers in this country have State organizations, and those State organizations are organized into groups.

Mr. UNTERMYER. Yes; I know.

Senator BRISTOW. Suppose that those groups of banks should be authorized to form an association and let these individual banks, grouped through the group officers which can be provided under a statute we might frame, ask the Treasury for this currency and have the group of banks stand behind each individual bank in the group and go direct to the comptroller or to the Federal board here if you wanted a board instead of the comptroller himself?

Mr. UNTERMYER. That is the principle of the regional reserve bank as provided by this bill, but without the virtues of the original bank. In other words, it is the principle of a union of the banks in a locality without the advantage of being able to mobilize or utilize the reserves of that locality, and it leaves undisturbed the control of these reserves in New York for purposes of stock speculation.

Senator BRISTOW. To express it in a different form, that is the principle of the regional bank without the opportunity for control of the regional bank by certain interested parties.

Mr. UNTERMYER. I do not see why not. It invites such control, because you get the same control over your association that can be gotten over the regional bank, except it is much easier to get. Under this bill a small bank has as much say as a big bank, and therefore it would be much more difficult to get the control of this association than it would be of your local association.

Senator BRISTOW. Now let us see if it is. In the State of Arkansas——

Mr. UNTERMYER (interposing). You know, of course, that this bank stock is not assignable; you know that under the terms of this bill one bank can not sell its stock to another bank, or to anybody else?

Senator BRISTOW. Yes; I understand that.

Mr. UNTERMYER. How, then, would the interests get control?

Senator BRISTOW. Well, I will indicate soon that it is easy. The State of Arkansas, we were told this morning, has seven of these groups of banks, the State of Minnesota, we were told the other day, has nine. I do not know how many there are in Kansas. Do you know how many there are in Nebraska, Senator Hitchcock?

Senator HITCHCOCK. My impression is they correspond to the congressional districts.

Mr. UNTERMYER. Do they not correspond to the clearing-house associations?

Senator HITCHCOCK. No; not in the Western States, because we have a very few.

Mr. UNTERMYER. There are 262 clearing-house associations in this country. There are a great many of them in the Western States, are there not, Senator Hitchcock?

Senator HITCHCOCK. Very few. There are not over four in my State, in my opinion.

Senator BRISTOW. I do not think we have any in Kansas.

Mr. UNTERMYER. Oh, yes.

Senator SHAFROTH. Have you not one in Kansas City, Kans.?

Senator BRISTOW. Kansas City, Mo.—it is all the same.

Mr. UNTERMYER. My recollection is—I know there are 262 in the country, and I thought there were a great many in the West.

Senator BRISTOW. These groups, I think, conform approximately to the congressional districts. In these groups provision can be made for the choosing of the officers by these groups, and these groups would deal directly with the Government; and if it is one for each congressional district there would be 440 of them. Now, I think you will conceive that it would not be at all practicable for any New York financiers to control all of these various groups.

Mr. UNTERMYER. No; I do not think it would be any more possible than for them to control all the regional banks.

Senator BRISTOW. It would be easier to control 12 than to control 440, would it not?

Mr. UNTERMYER. No; it depends on the organization. I think it is just as impossible, and more so, to control these 12 banks as it would be to control 440 institutions——

Senator BRISTOW (interposing). Just a minute. You say it would depend on the methods of organization. Suppose the system of electing officers and directors were the same for the 440 as for the 12, would it not then be more difficult to control the 440 than it would be to control the 12?

Mr. UNTERMYER. Yes.

Senator BRISTOW. Now, you think that it will not be possible for these financial interests—the Wall Street interests—to control these reserve associations? Of course, I think it will be easier. I think, when they come to elect this board of directors they have such a tremendous power in this reserve bank that you can name a half a dozen bankers in the region where Senator Reed and myself live that would name these directors.

Mr. UNTERMYER. But suppose there were 2,000 banks in that regional reserve bank?

Senator BRISTOW. But there are not 2,000 banks; there are only about between 600 and 700.

Mr. UNTERMYER. There are over 24,000 banks in the country. Now, assuming those banks are going to be equally distributed between the 12 regional reserve banks, and they are all coming in, that would make an average of 2,000 banks in one system.

Senator BRISTOW. But you must remember the board of directors are elected for this regional bank by the national-bank directors.

Mr. UNTERMYER. No; I think the State banks will become members.

Senator BRISTOW. But the State banks will not have an opportunity to become members under this bill before the board of directors is elected.

Mr. UNTERMYER. Is that so.

Senator BRISTOW. I think it is, under the provisions of the bill.

Mr. UNTERMYER. I think the State banks may become members at any time.

Senator BRISTOW. I may not be able to comprehend what the bill means, but——

Mr. UNTERMYER (interposing). I did not mean to imply that, Senator. I mean we differ on that.

Senator BRISTOW. (Reading:)

The national banks in each Federal reserve district uniting to form the Federal reserve bank therein, hereinbefore provided for, shall, under their seals, make an organization certificate, which shall specifically state the name of such Federal reserve bank so organized, the territorial extent of the district over which the operations of said Federal reserve bank are to be carried on——

Mr. UNTERMYER. What page are you reading from?

Senator BRISTOW. Page 4:

* * * the city and State within which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the names and places of doing business of each of the makers of said certificate, and the number of shares held by each of them, and the fact that the certificate is made to enable such banks to avail themselves of the advantages of this act.

And then in section 10, on page 15, it is provided—

that from and after the passage of this act any bank or banking association or trust company incorporated by special law of any State, or organized under the general laws of any State of the United States, may make application to the Federal reserve board hereinafter created for the right to subscribe to the stock.

Senator SHAFROTH. Would not that be cured by striking out the word "national" and putting in the word "member"?

Senator BRISTOW. That may be.

Mr. UNTERMYER. You must assume every bank is going to have a vote.

Senator BRISTOW. No; it is ideal to assume that every bank in the territory will come into this system, because the provisions would bar, in the territory in which I live, more than half of the State banks. and in the South the provisions will bar fully half or more than half of the State banks.

Mr. UNTERMYER. Of course I refer only to those that have the right to come in by reason of their capital.

Senator BRISTOW. But there is nothing like 24,000 banks that would have a right to come in under their capital, because about 6,000 banks have not the capital that would make them eligible.

Mr. UNTERMYER. Then we would have 1,800 in each reserve bank.

Senator BRISTOW. That is purely a theory; I do not think we would have 500.

Senator POMERENE. Do I understand from that remark that this bill has a limitation on the capital?

Senator BRISTOW. $25,000.

Senator POMERENE. Before they can come in here?

Senator BRISTOW. Yes; a State bank has to have $25,000 capital before it could become a member.

Senator POMERENE. I did not know it had to have that much.

Mr. UNTERMYER. Yes; a State bank must have the qualifications of a national bank in that locality.

Senator POMERENE. Yes; that is right.

Senator BRISTOW. Now, of course, we might sit here and argue whether or not from our points of view 600 or 700 or 800 banks that may be incorporated in this regional bank—as to whether at the election for the board of directors it would not be easy for the interested parties to control such election. From my experience in primaries and conventions and elections of various kinds, I know—at

least I feel confident in my own mind—that it is an easy thing to do, and I believe in your efforts to avoid the centralization and control which the central banks have you are making it possible, and it is altogether probable that they will control a majority of them or ultimately all of them.

Mr. UNTERMYER. If I supposed so, Senator, I think I would run very far from this scheme. To me the main virtue of this bill lies in its promise of relief in that direction.

Senator BRISTOW. Yes; I think you and I agree as to the dangers of this control.

Mr. UNTERMYER. Yes.

Senator BRISTOW. I think you and I have the same opinion as to that, only you believe you have obviated that control and I think that will be the result of this system.

Mr. UNTERMYER. I think we are decentralizing this control. That is what we are after.

Senator BRISTOW. Yes.

Mr. UNTERMYER. I should like to be convinced of it.

Senator BRISTOW. Nothing will convince you that they will be controlled except experience, and that, in my judgment, you will get if this bill becomes a law; and nothing will convince me that there will not be this control except experience, and I expect the experience we will have if this bill is enacted in its present form will demonstrate my theory is right and that in 10 years you will be saying so.

Mr. UNTERMYER. Do you not think that the fact that each of these small banks has as much of a vote and as much voice as the largest bank is a great source of safety?

Senator BRISTOW. My dear sir, the small banks are influenced by the large banks.

Mr. UNTERMYER. But when they realize that they have under this bill——

Senator BRISTOW (interposing). We must realize that the powerful banks of the commercial centers now—I can name the banks in Kansas City that will control the majority of the banks in Kansas in selecting these directors, and will do it through the methods that are well known in the selection of such responsible officers.

Mr. UNTERMYER. Do you not think that the fact that the Government names three of those directors and that three more would be removable at the will of the Government would go far toward averting that danger?

Senator BRISTOW. To be frank with you, Mr. Untermyer, I think that there are two banks here—one is the central bank—that will control if there is just one bank.

Mr. UNTERMYER. I agree with you about that.

Senator BRISTOW. And I am opposed to that.

Mr. UNTERMYER. So am I.

Senator BRISTOW. I believe the central bank would dominate the business of the country and control the credits of the country fully as much if not more than they are now controlled.

Mr. UNTERMYER. I think it would be a great peril.

Senator BRISTOW. Now that is not possible: it is not possible to have a central bank. I do not think public opinion would tolerate

it in this country: but it is possible—I hope not probable—we may have these regional reserve banks, and I think they will be controlled by the same interests that would control the central bank. Now, if it is not possible to control it that way the sinister influences which you have noticed for some years will seek to control in some other way. They are not going to give up, are they?

Mr. UNTERMYER. They won't give up if they see a chance——

Senator BRISTOW (interposing). They will wait until they see a chance, and then they will take it.

Mr. UNTERMYER. Sometimes it does not come.

Senator BRISTOW. It is not often it does not come, is it?

Mr. UNTERMYER. I would not like to say that.

Senator BRISTOW. Suppose they get control of the Federal board; then, where are you?

Mr. UNTERMYER. Suppose they get control of the Federal Government; where are you?

Senator BRISTOW. That is exactly the point I am coming to. If they get control of the Federal board, they would control the Government so far as the banks are concerned, would they not?

Mr. UNTERMYER. I am not apprehensive that any great public officials having such responsibility and position, operating as he would be compelled to operate in the fierce light of public opinion, will not conduct this institution in the interests of the public. I have sufficient faith in the patriotism of the country. We have, on the whole, done pretty well with our public officials and public bodies. We must have some agency to carry out a system of this kind, and I think we can trust the agency that has been set up by this bill. You have a certain number of safeguards, and if there are any more possible they should be added. You have a certain number of safeguards against control by any concentration of financial interests. In the first place, you have this vote accorded to each of the banks. In the second place, the stock is not assignable. It should be indorsed in blank and deposited in the archives of the Government. They should not be able not only not to assign it, but the banks should not have possession of it. It should be indorsed over and held for them, so that nobody would be able to get it, whether it was assignable or not assignable. Then you have the fact that these smaller banks throughout the country are no longer dependent for accommodations on the great centers as they were.

Senator BRISTOW. They are dependent absolutely upon the 12 regional banks.

Mr. UNTERMYER. Yes. Each bank is dependent on its own reserve bank.

Senator BRISTOW. Yes; absolutely.

Mr. UNTERMYER. But it has no longer, as now, close relations with the great cities, and you are removing and breaking up the concentration of control that is getting worse and worse all the time.

Senator BRISTOW. I will not discuss with you as to whether or not this Federal board might be controlled; I will not discuss with you the question as to whether or not these interests have not in periods in our history controlled high officers of the Government.

Mr. UNTERMYER. I think the days are fast passing when they can do it.

Senator BRISTOW. But if they did control—you say it is impossible; I may not have that view—but if they did control, then they would be in a far more powerful position than if we had a central bank, would they not?

Mr. UNTERMYER. No.

Senator BRISTOW. Why not, if the Government is controlled? While, if you had a central bank, you would have a Government that would control or undertake to control the central bank?

Mr. UNTERMYER. No; if you had a central bank, it would have such an impetus of power that there would be far greater danger and less checks than with the proposed system of these 12 scattered reserve banks with a Federal control. I do not think this system would be nearly so dangerous.

Senator BRISTOW. There is room there for a difference of opinion.

Mr. UNTERMYER. Of course, that is too problematical. We can not know as facts what we are talking about on such a question; we are all guessing.

Senator BRISTOW. We are all guessing; I think that is true. We are all guessing as to whether or not this control would be greater in the central bank or whether if they once got control of the central board it would be greater in the central board. Now, do you believe, with the tremendous importance to the country that attaches to this measure, that we ought to take any chances and depend on this guess that you and I are making?

Mr. UNTERMYER. I do not think we are taking any chances. I did not mean to say we were guessing as between these two systems, because you have the regional bank, where the discounts originate, and I do not see any possibility of the control of those regional banks, no matter who sits on the Federal reserve board. The Federal reserve board does not come very actively into the matter, except where currency is required. The regional reserve board rather is really the independent body, except when currency is to be issued.

Senator BRISTOW. If the Federal reserve board has not anything much to do with the running of these banks, why not leave that out?

Mr. UNTERMYER. I did not mean to say it did not have anything much to do with it; I said it had only a supervisory power.

Senator BRISTOW. Why not leave that then with the Comptroller of the Currency?

Mr. UNTERMYER. Because, when it comes to currency, then it has a very important function.

Senator BRISTOW. What function does it perform in the issuing of currency that is so important that that alone would necessitate its organization?

Mr. UNTERMYER. That is the most important function it has to perform. It has all sorts of discretionary power as to the issue of currency, and ought to have.

Senator BRISTOW. You would give that board the control of the volume of the currency? You would let it depend upon the judgment of four men—a majority of the board—would you?

Mr. UNTERMYER. I would vest the powers in that board that it has under this bill; yes; and a few more, perhaps.

Senator BRISTOW. Don't you think it would be a great deal better if that volume of currency depended upon the normal operation of the

business of the country independent of the judgment or financial theories of this board?

Mr. UNTERMYER. Who is to determine what is the normal operation of business? You must have somebody determine it. It does not determine itself automatically. Somebody must determine that—some board or individual. No system is self-executing; you have to have human beings.

Senator BRISTOW. But you can make certain provisions of the law that will authorize the issuing of currency when certain conditions exist.

Mr. UNTERMYER. If you generalize, yes; but it is one thing to generalize and another to come down to cases and try to draw a bill. We can all generalize very liberally, but it is a very different thing to put up a workable scheme.

Senator BRISTOW. If you can organize these 12 regional banks and they can do business with the Government, you could organize these groups of bankers and they could do business with the Government, could you not?

Mr. UNTERMYER. Yes; they could; but you would have 262 different institutions dealing with the Government——

Senator BRISTOW (interposing). You mean 440?

Mr. UNTERMYER. Oh, yes; 440 different institutions dealing with the Government instead of 12, and you would have no intermediate authority passing on this paper, no intermediate security or responsibility, and you would not mobilize or utilize your reserves. The greatest difficulty about this scheme, but not by far the only insuperable one, lies in the fact that it does not mobilize your reserves; it does not give scope for a discount market. You can never make your credits liquid until you establish a discount market.

Senator BRISTOW. Oh, yes; they can discount. The Government discounts.

Mr. UNTERMYER. I am talking about creating an open market for the discount of bills and acceptances, which is quite another matter and one that seems to be strangely and persistently ignored in this entire discussion, and yet that is the crux of this whole business.

Senator BRISTOW. I have another idea I want to suggest to you when we get to that. But you say that the 440 would not be so responsible—the currency would not be so good as if it were issued through the 1——

Mr. UNTERMYER. I did not say the currency would not be good, because it is Government currency. The currency would be all safe in any event. I am talking about the security behind it, so that the Government is safeguarded.

Senator BRISTOW. The security behind it; yes. Now, we could have the resources of all the banks in the group—their entire resources—could we not?

Mr. UNTERMYER. I suppose, if that were workable, in theory you could, yes. In practice it might be difficult.

Senator BRISTOW. You have behind the currency now the resources of the individual banks plus the backing of the regional bank, do you not? And that does not carry with it anything but the 10 per cent of the capital stock, and 10 per cent demand, or 20 per cent of the capital stock of the banks?

Mr. UNTERMYER. And the pro rata share of all the assets of the bank—each individual bank—that the debtor enjoys. That is in addition to the 20 per cent. If a bank fails and you have its indorsement and you do not get your money out of the regional bank, you are a creditor of the member bank.

Senator BRISTOW. Well, I say you have the assets of the member bank backed by the regional bank and its resources, and the resources of the regional bank consist of 20 per cent of the stock—10 per cent cash and 10 per cent on demand of the member banks.

Mr. UNTERMYER. And of all the deposits?

Senator BRISTOW. All the deposits of what?

Mr. UNTERMYER. The regional bank.

Senator BRISTOW. Its resources?

Mr. UNTERMYER. Yes; you have a prior lien on all those resources.

Senator BRISTOW. Now, you have a prior lien, not on 20 per cent of the capital of the banks in the group, but on all the capital of the banks in the group, and that is in addition five times as much as you would have behind the currency of the regional bank, so far as that group is concerned, to all of the assets of the banks in the group. Do you believe there is a district in the United States where that would not make ample security to the Government?

Mr. UNTERMYER. I do not know; perhaps it would.

Senator BRISTOW. Now, would it not be perfectly practicable to have a tax that would go into a reserve fund, a guaranty fund, to make good to the Government any losses that it might accidentally—the chances are extremely remote in my judgment—any losses which it might have on any of this currency?

Mr. UNTERMYER. I should not like to discuss the bank guaranty plan at this time.

Senator BRISTOW. I am not asking you about the bank guaranty plan. I am asking you if you do not think it would be possible to have such a fund to make good to the Government any losses that it might accidentally sustain on the currency.

Mr. UNTERMYER. Anything is possible.

Senator BRISTOW. Don't you think that would be possible?

Mr. UNTERMYER. Of course. Some insist that it is a premium upon reckless banking.

Senator BRISTOW. I am speaking of the currency. I am not speaking of guaranteeing bank deposits.

Mr. UNTERMYER. That is practically the same thing. If a bank fails, if it owes for the currency, the other banks have to make good. That is another form of bank guaranty, is it not? I do not mean to say that I either favor or am opposed to bank guaranties, but I know there are serious objections to it.

Senator BRISTOW. We have heard the objection from New York for many years that it places a premium on reckless banking.

Mr. UNTERMYER. I come from New York. That is no reason why I should agree to that, however.

Senator BRISTOW. That is true. New York is the center of this hostility to the bank guaranty plan.

Mr. UNTERMYER. Do you include me in that? I have not yet expressed myself on that subject.

Senator REED. Perhaps Senator Bristow means to suggest that you are from them but not of them.

Senator Bristow. I am perfectly willing to let Mr. Untermyer determine whether he is from them, or part of them, or against them. That is a matter between him and New York, and not between him and me. But I can not help but interject here that the bank guaranty system as practiced in the State of Kansas, which I have some familiarity with, is not a premium on reckless banking, and it has worked so well with State banks that the national banks have organized an independent insurance society for the performance of the same functions for them, except that it is controlled by a corporation.

Mr. Untermyer. I think that is a very legitimate and proper thing for the banks to do, because they will be looking out for the operation of it. When they have their own corporation and do their own guaranteeing they will watch one another.

Senator Bristow. Experience has demonstrated that it is not any better system than the guaranteeing under the supervision of the banking department of the State. Now, you spoke of the mobilization of reserves. Why not require the banks to keep all the reserves in cash?

Mr. Untermyer. Because it locks up too much of the money of the country.

Senator Bristow. What is the use of a reserve that they can not use in an emergency if it is in New York or Chicago banks? What good is it?

Mr. Untermyer. I do not think it is any good. I think the present system, as I have said, is a great humbug——

Senator Bristow (interposing). Why not abolish the reserve cash, except the cash in the vaults——

Mr. Untermyer (interposing). Because, I think, by keeping up a fair reserve and putting it in these reserve banks it will keep reasonably liquid.

Senator Bristow. Would it be any more liquid if deposited somewhere than it would be if the banks had it to use?

Mr. Untermyer. No; but if the banks have to lock it up then it is not liquid, but if you deposit it in these reserve banks you can loan two-thirds of it back to them on certain kinds of paper that are shortly maturing, and it becomes liquid.

Senator Reed. There would cease to be a cash reserve.

Mr. Untermyer. It should be invested in short-time paper that is almost cash. It should be strictly commercial paper, so that reliance could be placed on its automatically discharging itself at maturity.

Senator Bristow. Short paper is not paid much better than long paper.

Mr. Untermyer. If we had commercial paper instead of a lot of paper secured by speculative stocks, I think it would do us a great deal more good.

Senator Reed. Commercial paper in 1907, when you could not get money on Government bonds, would not have been of very much use, would it?

Mr. Untermyer. Except that the merchant, as his paper matured, would find ways of paying it.

Senator Reed. He would even cease to pay if he could not get any money.

Mr. Untermyer. Part of our commerce, you know, is with foreign countries, and our money is coming in from there, too.

The CHAIRMAN. Is it not true that the paper of which you speak has the peculiar and extraordinary characteristic of extracting from the pockets of the people ready money?

Mr. UNTERMYER. That is its main qualification.

The CHAIRMAN. Is not that the real reason why it is used for reserve purposes?

Mr. UNTERMYER. And the reason why it is the highest quality of reserve.

Senator REED. The Senator speaks of it extracting from the pockets of the people. But suppose that the money in the banks where it habitually is at all times as we know—suppose that the banks have substituted for that money commercial paper until they have not any money left. Then imagine a condition such as existed in 1907. How are you going to extract it from the pockets of the people? You can get it, I understand, from foreign commerce, but when you have locked up the banks of this country for want of currency, the fact that you have good paper does not do you much good.

Mr. UNTERMYER. Yes; it does, because that paper has been issued as commercial paper for an actual purchase and sale of merchandise that has gone into consumption and the merchant has got back his money, or should have had it with which to pay in the ordinary course of trade.

Senator REED. But he does not get it back when the country banks close their doors, and when the country merchant can not collect because the farmer and the mechanic out in the little towns and in the big towns——

Mr. UNTERMYER (interposing). But you are assuming that every savings bank and every big bank in the country has gone to smash.

Senator REED. I am assuming this, that this scheme proposes to substitute for actual cash paper notes, bills of exchange, etc., and I simply asked the question whether it did not, to that extent, limit the ability of the bank to pay cash in the hour of trouble.

Mr. UNTERMYER. It does not subtsitute paper for actual cash. It substitutes reserves in its own region for reserves that have been sent to the East and have been loaned out in all sorts of ways. In other words, its present reserve is not cash, is it?

Senator REED. Its present reserve——

Mr. UNTERMYER (interposing). Nine per cent of it is not cash.

Senator REED. We constantly, instead of discussing a principle, are discussing a principle applied to a certain condition. At the present time I grant you to the fullest extent that when a bank is required to keep 25 per cent reserve, and then is allowed to put half of that 25 per cent, or 12½ per cent, in another bank, and that bank is then allowed to redeposit that very reserve in another bank, only holding out 12½ per cent, that that makes the 12½ per cent so deposited a very uncertain thing in the hour of danger—in fact, an element of danger. Now, I agree with you on that; but, under the present law, a bank must keep in its own vaults a certain percentage of cash. Under the proposed bill it takes one-half of what it is required to keep in its own vaults in cash, and therefore constantly available in case of liquidation but not available in case of trouble——

Mr. UNTERMYER (interposing). I do not think that is so, Senator Reed. I think it is only the difference between 5 per cent and 6 per

cent in cash. Under the present law the country banks have to keep 6 per cent, and under the new law 5 per cent, in cash in their vaults.

Senator REED. Yes; the average is 12½ per cent.

Senator NELSON. It is 12 per cent now for country banks.

Senator REED. Take half of that 12 per cent, or 6 per cent, which is now required to be kept in cash, and put it over in a regional bank. If it were kept in the regional bank in cash it would be a very available fund, but it can immediately be replaced by the notes of the banks. Thus the bank no longer has cash on hand, and in addition to that has become a debtor to the reserve bank.

Mr. UNTERMYER. It gets the cash back from it.

Senator REED. It gets the cash back and loans it out.

Mr. UNTERMYER. Yes.

Senator REED. I call attention to that. Is not that actually reducing the cash on hand in the country in the aggregate which has to be kept in banks, and is not that substituting paper for it, and is not that reducing our reserve?

Mr. UNTERMYER. I do not think it is reducing our reserve, except to the extent of the difference between 5 per cent and 6 per cent. As I understand it, under the present law 6 per cent of the 15 per cent reserve must be kept in the vaults of the bank. Under the law that is now proposed, 5 per cent must be kept.

Senator REED. You are speaking of country banks?

Mr. UNTERMYER. Yes.

Senator REED. But how about the banks in the reserve cities?

Mr. UNTERMYER. As I remember it, you have 12½ per cent now that you have to keep, and under the new law—I forget what the amount is. It is not 6; it is more than 6——

Senator NELSON. It is 9. When the system is completed it is 18 in all, and they are required to keep 9.

Senator HITCHCOCK. Before you resume, Mr. Untermyer, along the line of what Senator Reed was saying, I noted down an expression which you used which is rather significant. You said that what we want is less money and more credit. Does that mean expansion?

Mr. UNTERMYER. What I mean is that we want to use our credit. I do not mean that we want less money than we have now. I mean that wherever we can substitute credit for money we want to substitute it.

Senator HITCHCOCK. Does that mean expansion?

Mr. UNTERMYER. No; that does not mean expansion, where you can use credit instead of money. It does not mean expansion of the currency, but I think we have now too little credit and too little money.

Senator BRISTOW. The reserve we have now of 6 per cent for country banks is no more than they need in the prosecution of their business.

Mr. UNTERMYER. I do not know anything about that.

Senator BRISTOW. The testimony before the committee of all the country banks that have appeared before us is that they carry more than 6 per cent in addition to what it is necessary for them to carry, so any reduction in the amount of cash from 6 to 5 is of no consequence whatever to them. Now, if these country banks have a place to which they can go in time of stress, what is the use for them to have any reserve other than that in their vaults?

Mr. UNTERMYER. What is the use of their putting any money in the reserve bank?

Senator BRISTOW. Yes; what is the use of their carrying any reserve except that in their vaults if they have a place where they can go and get money on their assets in time of stress?

Mr. UNTERMYER. They can not go and get money on their assets unless they first put it there.

Senator BRISTOW. I say you are compelling them to do it. Why?

Mr. UNTERMYER. Because it makes it a safer system to have these assets that are practically liquid—unless you assume they are going to do business without any reserve except what they have in cash.

Senator BRISTOW. And then if they have a place to which they can go and get currency in a crisis, if they have the assets that are good they ought to have that opportunity, so that a bank that was conducted along proper lines could not be closed up; and if it were conducted along improper lines, it ought to be closed up. So I was trying to find out why it is necessary to have any reserve other than cash, provided there is a place provided where the bank can get relief when it is necessary.

Mr. UNTERMYER. I think conservatism would dictate a reasonable reserve. You have reduced the reserves under this bill materially, and it is a question of judgment whether they ought to be reduced any further.

Senator BRISTOW. Now, you loaned back the money to the banks. This reserve which you require and this subscription you require the country banks to put into this regional bank, you say, will not contract their loaning power at home, because they can go and borrow it back?

Mr. UNTERMYER. They can borrow two-thirds of their reserve and all their capital. And it is not borrowed back on the general class of paper that the bank carries, but short maturities of a given kind that are supposed to be liquid, while the general business of a bank is only liquid in a certain proportion.

Senator BRISTOW. It selects out the best security and takes it down there, and then it can borrow back a part of the money which it gets—and, for my life, I can not see what is the use.

Senator NELSON. It seems to me, there is an opportunity for inflation.

Mr. UNTERMYER. Somebody suggested contraction. I have not been able to see where the contraction comes in.

Senator BRISTOW. We have had that up extensively.

Mr. UNTERMYER. I read Mr. Forgan's testimony, and I could not understand his point of view, and I challenge the accuracy both of his figures and his deductions.

Senator BRISTOW. Mr. Forgan, I understand, is a great man, and Mr. Reynolds and all that delegation; but I am more interested in what some man out on the prairies who is running a bank tells me about how this will affect him and his patrons than I am in the opinions of Mr. Forgan, Prof. Sprague, Prof. Fisher, or anybody else. I want to know how this thing is going to work when it touches the commercial affairs of the country, regardless of the theories of these writers on finance. That may seem somewhat crude in me and indicate that I am a good deal of a bore, but nevertheless

I want to know how this affects the man that is the bone and sinew of the country.

Mr. UNTERMYER. That is the wise and practical view.

Senator BRISTOW. Now, the regional bank pays no interest——

Mr. UNTERMYER. No.

Senator BRISTOW. But the country bank, when it borrows back the reserve upon which it gets no interest, is compelled to pay interest on it?

Mr. UNTERMYER. Yes.

Senator BRISTOW. Do you think that is right to the country bank, and fair to it?

Mr. UNTERMYER. Why, certainly.

Senator BRISTOW. I can not agree with you on that.

Mr. UNTERMYER. If it were to get the money for nothing, you know, there would not be any limit to the amount it would take.

Senator REED. The only limit on the capacity of these banks, after all, is interest.

Mr. UNTERMYER. No; that is not the only limit.

Senator REED. That is one.

Mr. UNTERMYER. The bill creates other limits.

Senator REED. That is one limit.

Mr. UNTERMYER. That is one.

Senator REED. You concur, then, in our theory here that interest charges may tend to keep down inflation?

Mr. UNTERMYER. If it is assumed you were going to charge something.

Senator NELSON. Mr. Untermyer, take a case like this: We will suppose that Senator Hitchcok is a member bank and Senator Bristow goes to him and borrows $10,000 and gives his note for it. Senator Hitchcock, as a member bank, says, "Very well, I will give you a credit for it on the deposit side of the ledger." That leaves a checking account of $10,000 open to him. Then you, Senator Hitchcock, take his note and you go to the regional bank with it and discount it and get $10,000 in currency. Then you take that currency and you loan it out to Senator Reed on his note. Is not that a big inflation of the currency?

Mr. UNTERMYER. You can not do any of those things under this bill.

Senator NELSON. Senator Hitchcock, as a local member bank is liable, first, to Senator Bristow on the checking account, as one of the depositors of his bank; then he is liable to the regional bank on the notes that he has discounted, and he has got the note of Senator Reed for it.

Senator REED. And he is busted. [Laughter.]

The CHAIRMAN. And then where are you?

Senator NELSON. Then he might go on and repeat the operation and discount Senator Reed's note and give Senator Reed a credit on the ledger for a checking account of $10,000. So you can have two accounts on your books there: $10,000 deposited by Senator Bristow, for which you have a note; and $10,000 deposited by Senator Reed, for which you have his note. You see, the process could go on without limit.

Mr. UNTERMYER. It could not begin at all, Senator Nelson, if you have the qualification that this shall be commercial paper. You

could not start it, you could not continue it, you could not get the currency or the discount from the regional bank.

Senator NELSON. Suppose Senator Bristow wanted that money to finance a corn deal out in Kansas.

Mr. UNTERMYER. If Senator Bristow had bought corn in Kansas and wanted that money with which to pay for it, and if the man who sold him the corn drew on him, and he accepted that draft and turned that over to the bank—in the course of time when that corn was sold that draft would pay itself.

Senator NELSON. If it was in the form of a draft——

Mr. UNTERMYER (interposing). Whether it were in the form of a note or a draft it would pay itself, if he made the note payable to the man from whom he bought the corn, and the man indorsed that note and turned it into the bank. Then when that corn was sold Senator Bristow would automatically have the money with which to pay that note. You would have a commercial transaction represented by a note for a commodity that went into commerce and there would be no inflation. But as soon as you begin kiting notes and assuming that currency will be issued for that sort of paper you can get anywhere.

Senator NELSON. The note is deposited with the regional bank and the regional bank has issued currency on it, and that currency has been loaned out again to Senator Reed.

Mr. UNTERMYER. Yes. But Senator Reed must also have some legitimate commercial transaction with respect to which that currency was used; and that would pay itself automatically.

Senator REED. Oh, no, Mr. Untermyer. No bill has proposed that when you get that money into your bank you shall only loan it out on commercial security. You can loan it to anybody.

Mr. UNTERMYER. But you got it on commercial security and therefore it is going to be paid back out of that transaction.

Senator REED. That is what you say, but here is what you mean: It may be paid back out of that transaction. There is a great deal of difference between what may be done and what must be done. What I mean is this—and I think we all ought to discuss this bill fairly, and if there is danger of inflation we must guard against it.

Mr. UNTERMYER. I think everybody is agreed to that.

Senator REED. I grant you that if you propose to issue money based upon commercial paper, and in addition provide that commercial paper should only be bills of lading or drafts accepted by absolutely responsible people and representing a purchase and sale of goods, you would have a condition that would rapidly liquidate the drafts. But it has been agreed here that we have no such system in this country at present as would enable us to issue upon it any sufficient amount of paper to transact the business of the country. And that it would take some time to establish such a system is manifest, of course, to everybody. So we have been talking now about commercial paper in another sense; that is, it is not a note with a bill of lading attached, but it is a note of a merchant—and, I suppose we might say, the note of a man engaged in raising cattle or sheep.

And we get down at last to a promissory note, and somebody's discretion is exercised as to whether or not it is a note of a merchant or the note of a man engaged in a commercial transaction, and we put

that up. The distinction between that and the bill of lading is this: The bill of lading absolutely brings the money into the bank; this brings the money into the pocket of the borrower, and he may and he may not use it to take up and discharge his debt, and I think that is a very important matter.

Mr. UNTERMYER. Very; but I do not think that we should be confined to cases where the bill is accompanied by a bill of lading; that is not necessary.

Senator REED. You say that. I say if you put that in you have got a system that may be circumscribed; it may be limited, but it is safe and does liquidate itself. When you go outside of that you have got into the question that I stated a while ago, not that it may not liquidate itself but it may.

Mr. UNTERMYER. The Government must see to it that it does.

Senator REED. Very well.

Mr. UNTERMYER. They must not renew this paper for which currency is issued.

Senator REED. Then, if they do not renew it, you have a system of currency that expands and contracts every month, which I believe you think might be desirable?

Mr. UNTERMYER. If it helps the commerce of the country.

Senator HTCHCOCK. And see how it works out?

Mr. UNTERMYER. Certainly.

Senator HITCHCOCK. Senator Bristow accepts a $10,000 draft at 90 days to pay for corn which he has bought. The bank discounts it. The bank then rediscounts Senator Bristow's note with the reserve bank, which loans the proceeds to Senator Reed on 90 days acceptance, as he has bought the corn from Senator Bristow. Is there any reason that that can not be done?

Mr. UNTERMYER. Do what?

Senator HITCHCOCK. He has bought Senator Bristow's corn from him—bought it, within a week after he bought it. Then he rediscounts Senator Reed's note at a reserve bank, and gets $10,000 more which it may loan to some one else. Is there any reason why a bank can not rediscount several bills on a single transaction, and thus produce an inflation of credit?

Mr. UNTERMYER. Let us see. We will have to figure that out. In the first place, the first transaction was not a commercial transaction at all?

Senator HITCHCOCK. Yes; entirely.

Mr. UNTERMYER. No. He borrowed the money with which to pay for corn that he has already bought, did he not?

Senator HITCHCOCK. No; he did not. The man who sold the corn drew upon him and he accepted.

Mr. UNTERMYER. He accepted that draft.

Senator HITCHCOCK. And the draft was gold at the bank.

Senator SHAFROTH. There could not be any inflation if the bill of lading were attached.

Senator REED. That ends the transaction.

Mr. UNTERMYER. If you are going to limit the issue of currency to transactions accompanied by bill of lading, you are not going to have any considerable elasticity or expansion of the currency. It is not necessary that the bill of lading should be attached. The transactions of that character are not of sufficient volume.

Senator REED. You might not have enough to do the business of the country at the present time.

Mr. UNTERMYER. I assume not.

Senator HITCHCOCK. I am assuming the case of one of the model transactions that you exploited the other day of a draft. Here is a draft on Senator Bristow, and he accepts 90 days' sight, and pays for the grain.

Mr. UNTERMYER. That is supposed to go into consumption and he sells it to Senator Reed?

Senator HITCHCOCK. Yes.

Mr. UNTERMYER. That is another transaction in that same grain?

Senator HITCHCOCK. Within five days after——

Mr. UNTERMYER (interposing). I do not consider that inflation at all.

Senator HITCHCOCK. Senator Reed accepted for $10,000, so that in five days you have five acceptances at $10,000 to pay for $10,000 of grain?

Mr. UNTERMYER. Yes; but they are all genuine transactions in merchandise that has changed hands, and the point of the whole transaction to make it commercial is that the grain will some time or other, in the course of business, get into the hands of the consumer and then the money will come back with which to discharge those obligations.

Senator REED. But, in the meantime, you had been able to turn that currency over five times and have out in currency the value of five times the value of the corn?

Mr. UNTERMYER. That is not possible.

Senator SHAFROTH. It can not remain out long, however.

Senator REED. When you get this system established you will have about so much paper coming in every day that can be renewed and so much going out.

Mr. UNTERMYER. But in 90 days that transaction is going to liquidate itself all along the line.

Senator SHAFROTH. And centered it right back in the reserve banks.

Senator BRISTOW. We will then take up the cattle business and handle it by the same method.

Mr. UNTERMYER. A pays it to B and B pays it to C and C pays it to B and B pays it to A, and it is going back, if that is a commercial transaction.

Senator REED. I want to ask you about another matter. I think we have gone into that, and that we now understand it. Mr. Untermyer, you have given a good deal of study to the question of the locking up of moneys in the banks of New York; that is, a bank out West deposits in a bank in the city and then that bank deposits in another bank, and so on, until finally it gets to New York, and there is produced there a large sum of money, and money is tied up in New York, and New York ties up the money through this chain of banks. I take it that you regard that as a bad part of the system of this country?

Mr. UNTERMYER. Very.

Senator REED. I want first to get to the degree of remedy. Of course, part of that comes through the depositing of reserves?

Mr. UNTERMYER. Yes.

Senator REED. But what proportion of the money actually reaching New York and being put in those banks can be counted as reserves, and what proportion of it is put in there for commercial reasons?

Mr. UNTERMYER. I have always figured that the banks had to have for their commercial purposes a sum in excess of their reserves, because they must not draw down their reserves.

Senator REED. Yes.

Mr. UNTERMYER. If they need $100,000 for their general purposes, presumably, they will have $100,000 more than their reserves; otherwise they would be constantly drawing down their reserves, but I am told by a good many of the out-of-town banks that they do frequently draw down their reserves.

Senator REED. But the amount that is kept in New York does very greatly exceed the reserves?

Mr. UNTERMYER. Yes, it does; and not only the amount kept on deposit exceeds the reserves, but when money rates are high in New York, the banks, in addition to the money that they deposit, send money there for investment and for purchase of demand loans on the stock exchange in their own names.

Senator REED. That is all, with the exception of the reserves, which they are required to keep, and which they may therefore deposit in New York because they get an interest upon it. All those other conditions which we have spoken of arise from commercial reasons?

Mr. UNTERMYER. Yes; but there is something like $800,000,000 or $900,000,000 of that kind of money in New York—reserves and money which is put out in Wall Street. We have all of those statistics collated in the report of the Pujo committee.

Senator REED. This is only preliminary, but the fact is that if the banks were not required to keep one cent of reserves in the New York bank, they would still be heavy depositors in New York banks, and would use the New York banks as they do now for commercial reasons, investments, etc.?

Mr. UNTERMYER. Not under this bill, because under this bill you see they can exchange with the reserve banks; they have a sort of clearing-house system provided for.

Senator REED. That is as far as exchanges are concerned, but they would not necessarily use these banks?

Mr. UNTERMYER. They would use these reserve banks for settling differences.

Senator REED. But they would not necessarily do it, would they?

Mr. UNTERMYER. I should think they would, because there is no charge connected with it; it is a cheaper process; they would not have to pay for the exchange.

Senator REED. Let us see——

Mr. UNTERMYER (interposing). Will you excuse me for just a second?

Senator REED. Certainly. [After a pause.] Do you think now that under this system the country banks will quit depositing their money in New York banks for commercial purposes and put that money into regional banks?

Mr. UNTERMYER. Largely, because of the system that is set up there, and the economy of the system by which they can make their

exchanges and pay their debts through their own regional bank under a sort of clearing-house arrangement without the expense they now have, with this qualification, that they will probably keep some money in New York because of the interest rate that they get out of it.

Senator REED. They will keep some in addition, because of the interest rate?

Mr. UNTERMYER. Yes.

Senator REED. Of course, we can not safeguard against what they do keep in the banks for interest?

Mr. UNTERMYER. No.

Senator REED. The amount of the thing, as I understand it, is this: That having provided a regional bank that is charged with cashing their drafts, they will not longer keep deposits in New York, except as the New York banks may offer them inducements in the way of interest which are sufficient to take their money over to them?

Mr. UNTERMYER. I think that is what is going to follow, Senator Reed, to a large extent, when the system has developed. I inquired into that this summer when I was in Germany, and found that there the merchants made their deposits in the Reichsbank, because that Government bank made exchanges all over Germany without cost, and it was a cheaper process than to put their money into local banks.

Senator REED. Let us assume that that would be the way this will work out. The result would be that the business now done by the New York banks in the matter of exchange, etc., must be transferred over to the regional banks, and that tax upon commerce would be relieved?

Mr. UNTERMYER. Yes; to that extent; and also the collection tax.

Senator REED. So that this bank in New York, the regional bank of New York, of course, would be used a great deal for that purpose, because there is so much business done in New York of that character?

Mr. UNTERMYER. Yes.

Senator REED. That same thing would be true of all the regional banks in a less degree, would it not?

Mr. UNTERMYER. I think so.

Senator REED. Let us see how it would work out now. Then the place where the regional bank was located would be the place where these transactions would be facilitated?

Mr. UNTERMYER. That is where the exchanges would take place; all the members of that bank would exchange at that place.

Senator REED. And that would be a matter of convenience?

Mr. UNTERMYER. And economy.

Senator REED. And it would have this sort of effect, if the establishment of a regional bank in New York would transfer the exchange business from the ordinary banks of New York to the regional bank very largely, not entirely, but largely—then that would be true of the banks of St. Louis, provided there was a regional bank located there, and the same thing would happen—the exchange business that now goes to St. Louis would be done through that regional bank?

Mr. UNTERMYER. When it got there it would be.

Senator REED. When it got there, instead of being done by the individual banks of St. Louis it would be done by the regional bank?

Mr. UNTERMYER. Well, they would exchange courtesies, that is all.

Senator REED. And all of the banks in that district in which St. Louis was situated would begin to send their exchanges to the regional bank where they would have it done for nothing?

Mr. UNTERMYER. Of which they were members.

Senator REED. Of which they were members. The result would be that instead of carrying their balances at Omaha and Kansas City, where they now get accommodations for the banks, they would or could withdraw those balances and now transact the business over at St. Louis, some 300 or 400 miles away?

Mr. UNTERMYER. They would not be likely to withdraw the balances on which they were getting interest and put them where they were getting none.

Senator REED. They would withdraw all those balances that they now keep for accommodation, and they would do the business in the regional bank of St. Louis?

Mr. UNTERMYER. Yes; it would be cheaper for them.

Senator REED. I want to see just how that would affect Kansas City banks, and I am speaking of that because I am a little more familiar with it. Of course, what would affect Kansas City would affect every other city within that territory and that region.

Mr. UNTERMYER. I think they would lose the profit on their exchange business.

Senator REED. Would not they lose in addition to that? But I will ask a preliminary question along that line. Is not this absolutely the truth in the banking world, that here is a little country bank; it may not have more than $10,000 capital. It gets some money on hand; it desires to loan out and does loan out pretty closely, but for the sake of always being ready to meet any demand that is made upon it that country bank takes whatever surplus moneys it has and deposits it with a bank in Kansas City, and forms an alliance with that bank, and then when it needs money from day to day it draws drafts against it, and sometimes it calls upon it for assistance; that is the system that is now in vogue, is it not?

Mr. UNTERMYER. Yes.

Senator REED. If you create a bank down in St. Louis that not only handles the exchanges, but also handles and discounts the paper of these banks on favorable terms, they will go to that bank to discount their paper, will they not?

Mr. UNTERMYER. You mean the reserve bank?

Senator REED. The reserve bank?

Mr. UNTERMYER. Yes.

Senator REED. So that you will transfer that business away from Omaha and Kansas City and the other towns similar to them, down to the reserve bank in St. Louis, will you not?

Mr. UNTERMYER. Some of it.

Senator REED. Well, all of it that the banks now carry on for the purpose of accommodation will be transferred to the St. Louis regional bank?

Mr. UNTERMYER. I think there will always be a large amount of business done in the central cities with country banks.

Senator REED. I say, all that they now transact for the purpose of obtaining these accommodations will go to St. Louis?

Mr. UNTERMYER. Most of it.

Senator REED. That means you can not add anything to the business of the bank of St. Louis without you take that business away from some other place, does it not?

Mr. UNTERMYER. I do not agree with you about that, because a large part of the business of the regional bank is that of getting currency and turning it back to the bank, and in that way adding to the volume of currency you are going to add to the volume of business at every one of those banks.

Senator REED. You can not add to the volume of currency unless you increase the currency.

Mr. UNTERMYER. You increase it by issuing currency for commercial paper.

Senator REED. But, when you talk about adding to the volume of currency—"adding" means increasing does it not?

Mr. UNTERMYER. Yes.

Senator REED. Increasing means inflating, does it not?

Mr. UNTERMYER. No; not necessarily.

Senator REED. It means inflating, with a qualification that you claim nothing is inflation that may result in a commercial transaction?

Mr. UNTERMYER. I mean that nothing that is legitimate expansion is inflation.

Senator REED. I do not care, however, to go off on that side line, because we have pursued it already. I want to talk about the effect on business. I want to give you an illustration. Here is a bank in my city that has a capital of $3,000,000, a surplus of $874,000, a circulation of $2,000,000, and deposits of $28,863,000. Of those deposits $10,000,000 are from country banks. If this bill goes into effect, there would be no reason for those country banks to deposit with the banks of Kansas City, except that a bank in Kansas City might simply make a deal for the money and pay interest?

Mr. UNTERMYER. That is the Commercial, Mr. Perry's bank?

Senator REED. Mr. Perry's bank. I have got the bank statement for it, and it is a good bank.

Mr. UNTERMYER. Yes; I know all about it. I went over the subject with Mr. Perry last night.

Senator REED. That is the situation, is it not?

Mr. UNTERMYER. Yes; very largely.

Senator REED. That means that $10,000,000 will be taken away from the business of Kansas City from that one bank alone, and carried down to St. Louis, not by virtue of commercial rules or regulations and contingencies of business, but by virtue of the mandate of a law; that is about where we come out, is it not?

Mr. UNTERMYER. Yes; but I think that bank would be much better off under that system than it would without it.

Senator REED. I just want to treat it now with reference to this, and not with reference to the remedy.

Mr. UNTERMYER. I assume that all of those banks will have deposits; I mean that I do not assume that they are not going to have any money.

Senator REED. I think that they will have some, because the bank will pay some interest, but the risk will be gone.

Mr. UNTERMYER. And of that $10,000,000 how much do they now send away to New York?

Senator REED. To New York? I can not tell you from the statement. They keep some in New York.

Senator SHAFROTH. Is not there an item "due from other banks" there?

Senator REED. No.

Mr. UNTERMYER. I think so, on the other side.

Senator REED. Not on this statement. This statement is "resources, loans, and discounts, $19,760,000."

Senator NELSON. What is the name of the bank?

Senator REED. The Southwest National. "Overdrafts, $4,000; real estate, $400,000; United States bonds, $2,175,000; bonds and securities, $1,425,000; cash and sight exchange, $10,978,000."

Mr. UNTERMYER. There is no way of telling how much of that is in New York and St. Louis now.

Senator REED. No; but of course if this bank has its money in the regional bank of New York it would not be in the same case it is now with reference to the money being absent, although it might be in a very safe place.

Mr. UNTERMYER. It could not have it in the regional bank of New York.

Senator REED. Except it borrows.

Mr. UNTERMYER. It would put it in the regional bank in St. Louis and not in the regional bank in New York.

Senator REED. I want to take up the question of the primary transaction. I do not mean of an ultimate transaction, and I am talking about the effect of this bill in the first 90 days after the regional banks are organized. This bank has $3,000,000 of capital. It would therefore have to take out of its vaults $300,000 and put it in the bank of St. Louis?

Mr. UNTERMYER. No; I think it is going to be gradually over a period of 38 months.

Senator HITCHCOCK. Sixty days.

Mr. UNTERMYER. Only a small part of it.

Senator HITCHCOCK. The capital has got to be taken in 60 days.

Mr. UNTERMYER. Oh, you are speaking about the capital?

Senator REED. It has got to be taken in 60 days, $300,000, and cardied down to St. Louis. It has got to take——

Mr. UNTERMYER (interposing). Why can not it borrow that back?

Senator REED. I am just coming to that. It has got to take out of its reserve 6 per cent, or $1,750,000.

Mr. UNTERMYER. Has it to take that right away, or is not that gradual?

Senator REED. As the bill originally sets it out it took it right away.

Mr. UNTERMYER. It is spread over 38 months.

Senator REED. The first six months? Oh, no; the taking of the whole of its reserve is spread over that time, but it has to take 6 per cent at once, as I understand it.

Mr. UNTERMYER. I think you are wrong, because, you see, the entire reserves at the end of the term are 18 per cent.

Senator REED. The end of the term is 36 months, is it not?

Mr. UNTERMYER. Yes; but let us see—five-twelfths, I think.

Senator NELSON. Five-eighteenths.

Mr. UNTERMYER. Three-twelfths is to go into the regional bank.

Senator REED. This is a reserve city bank.

Mr. UNTERMYER. Reserve city bank; let us see—that is a 20 per cent reserve, is it not?

Senator NELSON. It is to be 18 per cent.

Senator SHAFROTH. Ultimately?

Senator NELSON. Yes; I think after 60 days.

Mr. UNTERMYER. Three-eighteenths for one year. It has got to put three-eighteenths with the reserve bank; that is, one-sixth.

Senator NELSON. And after that 5 per cent.

Senator REED. Then it would have to put in one-half of that amount right away.

Mr. UNTERMYER. Three-eighteenths is not a half of it.

Senator REED. It has to have a reserve of 18 per cent and it takes out of that 18 per cent within the first year one-third of 6 per cent.

Mr. UNTERMYER. No; three-eighteenths is one-sixth—only 3 per cent.

Senator REED. It takes that out immediately; but before the year is over it has taken out three-eighteenths more.

Mr. UNTERMYER. Only 3 per cent the first year.

Senator REED. I have not examined that change.

Mr. UNTERMYER. Here it is.

Senator REED. The original bill——

Mr. UNTERMYER. It must keep 9 per cent. [Reading:]

After 60 days from the date aforesaid, and for a period of one year at least three-sixteenths, and permanently thereafter at least five-sixteenths of such reserve shall consist of a credit balance with the Federal reserve bank of its district.

That means 3 per cent that goes to the Federal reserve bank.

Senator NELSON. After that it is five-eighteenths.

Mr. UNTERMYER. After that it is five-eighteenths. Then there is 4 per cent.

Senator NELSON. Nine per cent is kept in the bank?

Mr. UNTERMYER. Yes.

Senator NELSON. And 5 per cent in the reserve bank, and the other 4 per cent can be kept in either place?

Mr. UNTERMYER. Yes; until the end of 36 months.

Senator NELSON. And after the end of 36 months 4 per cent can be kept at either place.

Senator REED. Coming now to the exact figures, this bank would have to transport, as I understand it, $1,750,000 of its assets, and do it within the first 60 days; $300,000 in capital and 3 per cent on its deposits. That is a good deal of money to take out of one bank in cash.

Mr. UNTERMYER. How much do you make it?

Senator REED. $1,750,000. Its loans and discounts now are $19,-760,000. Would that not necessarily compel that bank to call in some paper?

Mr. UNTERMYER. I do not think so.

Senator REED. Unless it went down to the reserve bank and immediately borrowed back this money?

Mr. UNTERMYER. That is just what it would and ought to do.

Senator REED. Now, that begins a system by which it has to pay interest upon its own money?

Mr. UNTERMYER. You take the $300,000 of capital; it may borrow all that back. It gets 6 per cent upon that, borrows it back at 2 or 3 per cent, and makes that difference, and gets its money back. It is a good business transaction.

Senator REED. Now, I am coming to that. This bank never has this $1,750,000 in cash, and in the event that the bank should happen to break, that money ought to be there.

Mr. UNTERMYER. It does not have it in cash now——

Senator REED (interposing). It has to keep a reserve in cash.

Mr. UNTERMYER. How much of that is now in New York under the present system?

Senator REED. It can only have 12½ per cent.

Mr. UNTERMYER. Think what that is. Twelve and one-half per cent is over $3,000,000.

Senator REED. It is in New York, where this bank is getting the use of it.

Mr. UNTERMYER. This bank is getting 2 per cent. The one in New York is getting the use of it.

Senator REED. This bank has a chance to count it as a reserve. Under this system it has got to take that money out of Kansas City and carry it down to St. Louis and put up its notes for it.

Mr. UNTERMYER. Now it is carrying it to New York.

Senator REED. But it has got to send money to New York to do business anyway.

Mr. UNTERMYER. It now has to keep that reserve good in New York, to keep its business there, and it has now 12½ per cent of its reserve. Its reserve is 25 per cent of that $28,000,000, which would be $7,000,000, of which one-half may pe carried in New York.

Under this plan you have only $840,000 the first year to put into that reserve. It counts as a reserve there as in New York. If it is in New York it is being used by the New York bank; maybe they are borrowing some of it back, and maybe they are not.

Senator REED. They always have the use of it in case of emergency, unless the New York bank is tied up.

Mr. UNTERMYER. They have not the use of the reserve at all. It has to stay there.

Senator REED. They use it every day for accommodation or for investment.

Mr. UNTERMYER. Not that reserve; they have to have a fund above that. They have to have an additional amount. This bank, with its vast deposits, is much better off under this system, and it will have the use of far more money the first year than it has now.

Senator REED. I want to follow this. This bank now has cash in its vaults. When it carries this money to the reserve bank it will substitute for that cash its notes, getting it back.

Mr. UNTERMYER. Senator Reed, it will have more cash in its vault when it makes this exchange than it has now. It will get its money back from New York.

Senator REED. I want to follow this transaction now, and then let us take up the New York end. I want to be perfectly fair in this matter.

Mr. UNTERMYER. I am sure you do.

Senator REED. This bank takes $1,750,000 and carries it to St. Louis. It then puts up its note in the bank in St. Louis and borrows it back?

Mr. UNTERMYER. Borrows part of it.

Senator REED. Sixty-six per cent of it?

Mr. UNTERMYER. Sixty-six per cent of the $840,000 and all of the $300,000.

Senator REED. It takes that money and loans it out?

Mr. UNTERMYER. Yes.

Senator REED. Now, in the event of the failure of a bank, if it has notes in its vaults those notes, of course, can be taken out and collected?

Mr. UNTERMYER. Of a reserve bank?

Senator REED. No; any bank, regardless of the reserve system. By this system—and it is because it is thought that cash is better than notes in the hour of trouble that we have provided for a reserve, and this bill still keeps a reserve. But this substitutes the notes of a bank for cash to this extent, does it not?

Mr. UNTERMYER. I do not quite follow you there.

Senator REED. I am just trying to find out where we get out on the cash end.

Mr. UNTERMYER. I do not see why you say this substitutes notes for cash, because under the other system you have to put the reserve——

Senator REED (interposing). The bank is required to keep this $875,000 now in cash in its vaults, this particular amount.

Mr. UNTERMYER. No; that is the money that goes to the reserve bank.

Senator REED. I say under the present law it has to keep that in its vaults as a cash reserve.

Mr. UNTERMYER. Yes.

Senator REED. Under the proposed law it can take that down to a Federal bank, and the next day put its note up and bring it back home.

Mr. UNTERMYER. No; that it has to keep there.

Senator REED. Is that $875,000 taken by the bank right away?

Mr. UNTERMYER. No; it has to keep half of the reserve actually in its own vault under this new law.

Senator REED. But this $875,000 that I am talking about is over and above the one-half of the reserve. I believe we are both very tired, and I think I see a thing very plainly, and it seems we get con fused, between us, and I know it is quite unintentional.

Mr. UNTERMYER. I am sure it is not intentional with you, and I know it is not with me.

Senator REED. I am speaking about the system as it now exists. The bank is required to keep a certain reserve, and now we propose to inaugurate a new system and to provide that the bank shall take a part of its present reserve and deposit it in the reserve bank at St. Louis, and I believe that we are agreed that that amount would be $875,000.

Mr. UNTERMYER. But where we do not agree is in this: You say under this new law it must take part of the reserve it now carries

in cash and take that to St. Louis. I do not agree to that because the part it is taking to that bank is that part that now goes somewhere else. It is required to have less cash in its own vault under the new law than under the old law.

Senator REED. That is just exactly what I am trying to demonstrate.

Mr. UNTERMYER. It does not need to have it in the reserve bank.

Senator REED. Under the present law it has to keep a certain cash reserve, which is very gradually reduced. It is reduced to 9 per cent in reserve cities, whereas it was 12½ per cent?

Mr. UNTERMYER. Yes; 12½ per cent.

Senator REED. Now, it takes that 3 per cent and puts it over in the bank in St. Louis?

Mr. UNTERMYER. That is just what it does not do. The money it puts into the bank in St. Louis is part of the other 12½ per cent of the 25 per cent it sent to New York.

Senator NELSON. On that 12½ per cent in New York it was given 2 per cent interest?

Mr. UNTERMYER. There is no doubt about that.

Senator REED. At the present time a reserve bank has to keep 25 per cent of cash either in its own vaults or in New York?

Mr. UNTERMYER. Yes.

Senator REED. It has to keep 12½ per cent at least in its own vaults?

Mr. UNTERMYER. Yes.

Senator NELSON. Less 5 per cent of circulation?

Senator REED. Yes. Now, we propose to inaugurate a new system, and the first thing we do is to say that instead of requiring it to keep 25 per cent it can reduce its reserve to 18 per cent. That reduces the reserve, as to that character of banks, by 7 per cent and that 7 per cent can be loaned out and handled as the bank sees fit. To that extent we have reduced the actual reserves of the banks of the country, have we not?

Mr. UNTERMYER. Yes; and increased their capacity to do business.

Senator REED. And increased their capacity to do business. Of course, their capacity to do business is increased also if a man comes in and pays money over the counter, but we have been holding the reserve because in the day of trouble cash is always worth its face. We have reduced, as far as this part of the equation is concerned, the element of safety by about one-fourth?

Mr. UNTERMYER. I do not think so, Senator Reed, because you have now a fund to which to go, which previously you did not have.

Senator REED. I am going to follow that thought. That leaves us 18 instead of 25 per cent reserve. Now, we take, ultimately, that entire 18 per cent—no; we take 12 per cent ultimately.

Senator NELSON. Of that 18 per cent, under the new bill, 9 per cent is kept in the vaults of the bank, and during the first year 3 per cent is kept in the regional reserve, and at the end of 36 months 5 per cent, and then there is 4 per cent over and above that is optional with the bank, as I understand it, either to keep in its own vault——

Mr. UNTERMYER (interposing). I do not think so.

Senator REED. When this bill gets to working the bank must put into the regional reserve bank, as I understand it——

Mr. UNTERMYER (interposing). Three per cent.

Senator REED. Not ultimately.

Mr. UNTERMYER. When it gets working——

Senator REED (interposing). I mean when it is in full working order it puts 5 per cent of its deposits in the regional bank.

Mr. UNTERMYER. After 36 months.

Senator REED. It must have that much there. And immediately borrows back that 5 per cent, less the reserve.

Mr. UNTERMYER. That is 33⅓ per cent.

Senator REED. Thirty-three and one-third per cent. In other words, it can borrow back about 3½ per cent. That is no longer cash in its vaults, nor is it cash in the vaults of the reserve bank. It is represented by notes and it can be loaned out by this very bank. That is correct, is it not?

Mr. UNTERMYER. It can be cash; if the bank wants it back, it can get it.

Senator REED. It can be loaned out?

Mr. UNTERMYER. It can be loaned out; yes.

Senator REED. That is reducing the actual reserve which must be kept on hand by 10½ per cent?

Mr. UNTERMYER. No.

Senator REED. I mean 10½ per cent of the deposits. They have cut down the actual cash reserve which must be kept in some bank in some form as cash from 25 per cent by the following process: First, we have reduced the 25 per cent by 7 per cent, and then we have provided for the deposit of 3½ per cent in the regional bank, which can all be borrowed back, which allows for the 33⅓ per cent.

Mr. UNTERMYER. That is cash, anyway. When it is borrowed back that reserve is there to the credit of the bank.

Senator REED. It is not cash.

Mr. UNTERMYER. Yes; it is; because the reserve bank has to keep it there.

Senator REED. But they borrowed it back.

Mr. UNTERMYER. But that is subject to demand.

Senator REED. There is a demand for it. I am talking about the cash reserve. By this process you have reduced your cash reserve 7 per cent.

Mr. UNTERMYER. That I agree to.

Senator REED. I want to get your mind on this question. When the banking system of our country is in trouble this trouble arise through a lack of confidence, in almost every instance. Do you think that in the hour of trouble a run is less likely to come on a bank that is required to keep, say, a 50 per cent reserve, than it would be on one that is required to keep no reserve?

Mr. UNTERMYER. No; I do not think it is less likely. I think it is more likely, and yet that is just the time you need the use of your reserves. That has been the trouble.

Senator REED. We have all been wrong in the idea that a 25 per cent cash reserve was some element of safety in the hour of trouble?

Mr. UNTERMYER. No; I do not think we have been wrong. I think we have been right, because the existence of that 25 per cent cash re-

serve ought to inspire confidence, but when confidence is not there, and you can not use the reserve when the run does come—that is an element you have to consider.

Senator REED. I am not talking about just that. We might agree on some plan to use it, under those conditions. I will assume that a bank had all its money in the vaults, and everybody knew it; then there never would be a run on the bank.

Mr. UNTERMYER. It does not follow when people lose confidence. Look at the situation in the country. The soundest savings bank institutions have lost their money——

Senator REED (interposing). You do not mean to tell me—because if you do, I am going to quit trying to agree with you—that if the banks of the country had 100 per cent of their deposits in the banks that anybody would get frightened at the banks? It has seemed to me if we had a 100 per cent reserve—which is an impossible supposition—that we would have no trouble; if we had no reserve we might get frightened, and just in proportion as we have a reserve we have a certain element of safety, which would tend to steady the public mind.

Mr. UNTERMYER. It does not, as experience has shown. Take our savings banks in New York, which have never failed. They are 100 years old, and they are enormously rich, and every time we have had panics there have been runs upon those banks.

Senator REED. Then you do not think a reserve is necessary at all?

Mr. UNTERMYER. I do.

Senator REED. For what purpose?

Mr. UNTERMYER. I think it is necessary in order to meet the situation when it comes, but it ought not to be there so that you can use it——

Senator REED (interposing). Why require the banks in this bill to keep 9 per cent in their vaults that they can not use? Why not put it all in the regional banks where we can turn it into money?

Mr. UNTERMYER. Because experience has shown they have to have a certain amount of cash to do business.

Senator REED. But they can not use it if this reserve is of no use——

Mr. UNTERMYER (interposing). I do not say it is of no use.

Senator REED. As tending to furnish stability to the bank, it certainly is not of use to be employed, because they would not employ it. Therefore, why not wipe out all reserves—that is, as far as the law requires them in banks, and put a certain reserve in the regional banks and be done with it?

Mr. UNTERMYER. I do not say it adds no stability to the bank. What I do say is, in the first place, in the European systems they have no reserves and require none, because they have this access to the central bank. The question as to whether people will have confidence in a bank seems to me to depend more upon the wealth and the assets of the bank and the character of the directors of the bank than upon the mere fact that it may have from 6 to 9 per cent of its total deposits in cash. I think the general standing of the bank, the character of its directors, and the general assets are far better as an assurance than the other factor.

Senator REED. It is more important to have a bank thought to be perfectly solvent than to have a bank thought to have a certain

amount of cash. I agree with that. But I am surprised that you do not agree that whatever cash it did have, in so far as it had it, was an element of safety, and an element that would tend to steady the public mind.

Mr. UNTERMYER. I have not said it was not.

Senator REED. I have tried to get that statement from you several times.

Mr. UNTERMYER. Yes; I have said it is not controlling; that in times of great panics that did not seem to do much good.

Senator REED. I did not ask you if it was controlling. I asked you if it was an element?

Mr. UNTERMYER. No; I do not think you did.

Senator REED. Why not? If we are going to establish these 12 banks, why require a bank to keep 9 per cent in its vaults that it can not use? Why not allow it all to go to the central bank and be utilized? Why do we stop at the halfway house?

Senator SHAFROTH. They can use the reserve, but they have to replace it. In times of emergency they can use the reserve.

Mr. UNTERMYER. You mean they can suspend the reserve requirement under this bill?

Senator NELSON. If they allow their reserve to go below the statutory amount the comptroller notifies the bank and it has 30 days to put it in.

Mr. UNTERMYER. The Federal board can suspend the reserve requirement.

Senator REED. I do not understand that the bill is intended to allow them to pay out——

Senator NELSON (interposing). I was speaking of the existing law.

Senator SHAFROTH. The same law would prevail under this bill. There is no modification.

The CHAIRMAN. There is a further provision that the Federal reserve board may make rules by which this can be used.

Mr. UNTERMYER. They may suspend the reserve requirement. I think that is only the reserve requirement of the reserve bank. I do not think it applies to the member bank.

Senator HITCHCOCK. All reserve requirements under this act.

Mr. UNTERMYER. Let us see if that is so.

Senator HITCHCOCK. That is corerct. I looked it up.

Senator REED. So that the result first of this bill is to reduce the reserves required to be held by practically 25 per cent. The next proposition is the transfer over to the regional bank, when the bill is thoroughly working, of 5 per cent; and they can borrow all of that back except 33 per cent of it, and then they can, under the discretionary orders of the central board, wipe out all the rest.

Mr. UNTERMYER. For 30 days.

Senator REED. For a period of 30 days.

Mr. UNTERMYER. And to renew them.

Senator REED. And to renew them——

Mr. UNTERMYER (interposing). Fifteen days each.

Senator REED. That pretty nearly wipes out the reserve, or makes it entirely possible to wipe out all the reserves of all of the banks of the whole country.

Mr. UNTERMYER. The bill requires that when they are needed they ought to have some means of using them.

Senator REED. Do you think that is a prudent thing to do?

Mr. UNTERMYER. Yes, I do. Our difficulty in times of stress has been that we have had to keep our reserve intact. As a matter of fact, the banks repeatedly violate the law with respect to their reserve.

Senator REED. Then do you think it is feasible as to this 9 per cent to make rules which will permit the use of that money in times of emergency, and do it with safety to the banking system?

Mr. UNTERMYER. In times of crises, it seems to me, the power ought to be there.

Senator REED. You think it could be done safely?

Mr. UNTERMYER. I think sometimes it is the only safety valve.

Senator REED. Why not require a bank to keep 25 per cent of reserve and allow them to borrow that 25 per cent under the same rules and regulations, and just cut all this machinery out?

Mr. UNTERMYER. Because you can have no system without the machinery.

Senator REED. You do not mean to say, do you——

Mr. UNTERMYER (interposing). You want to use those reserves. Why require a bank to keep reserves there and have no use of them?

Senator REED. I am proposing to use them. I am proposing that we require a bank to have a 25 per cent reserve, as we do now, and require it to keep it in its vaults.

Mr. UNTERMYER. Then you could not use it.

Senator REED. And then provide that a bank could cut into that reserve under the same kind of rules under which you are going to permit it to use the 9 per cent and then, perhaps, as it cuts into that 25 per cent reserve, begin to tax it and to make it pay a penalty.

Mr. UNTERMYER. On its own money?

Senator REED. Yes, sir; every time it went below the 25 per cent, increasing that penalty. Would that not give you a chance to use the reserves?

Mr. UNTERMYER. No; I do not think so. It does not give you a chance to centralize them and use them to best advantage.

Senator REED. I do not want to centralize them. I am just as much afraid of centralization in the banking business as I am in the manufacturing business. I am trying to keep the money in the individual bank where the individual bank can use it.

Mr. UNTERMYER. They are using it this way.

Senator REED. They are; yes; but it is gone.

Mr. UNTERMYER. They are getting it back; they are borrowing it back from a central point. Why charge them for it?

Senator REED. That comes to an argument on the merits of it. Your view is that the reserve is of little importance.

Mr. UNTERMYER. I would control that reserve by having it in liquid form. It can only be put out for a limit of 90 days, so that it is comparatively liquid. The general assets of the bank are not in that shape.

Senator REED. That could be done by a rule of the board, could it not, that when they cut into this reserve they could only loan it on a certain class of security?

Mr. UNTERMYER. Yes; if you take the position that there is no advantage in mobilizing the reserves and concentrating them in these 12 sections, that is true. But I take the position that there is great virtue in that, that it distributes the money where it is needed in that section, and I take the further position that if you want to get a discount market for your paper you must have these central places.

Senator REED. I will discuss that question of mobilization with you for a moment. Then I am through. I fail to understand where there is any mobilizing—I may be dense about it. The 33 per cent which is required to be held in the reserve bank is, of course, immobile. A bank takes 10 per cent of its capital and puts it down in its reserve bank, and it takes out 5 per cent of its deposits and puts it in the reserve bank. One-third of those deposits is set aside in an immobile position. The balance, whatever it is, can be borrowed back by that bank at once, and the central bank has nothing now but the notes of that member bank. Assuming that that is done by all the banks, the central bank has not a dollar in its treasury it can use. The 33 per cent is set aside and must be maintained. There is no mobility in that. It is generally conceded that that is what the banks will do. Now, where does the regional bank get any money? The only place it gets a dollar of actual free money is the money that the Federal Government takes down and puts practically in its vault.

Mr. UNTERMYER. I do not agree it is generally conceded that the banks are going to take back that money. On the contrary, I contend that the money will be distributed in the various regions where it is needed. To-day one set of banks can borrow the money, and to-morrow another set of banks could borrow the money, and it will be ready for use in the section where it is needed. That is what I call mobilization.

Senator REED. Now, assume I am a banker. You bring over to me $300,000 of money that you can not use. You put it into my bank. I am loaning at a low rate of interest; why won't you borrow it back at that low rate of interest and loan it out at a higher rate?

Mr. UNTERMYER. Because I would not need it. There would be times when I do not need it, and the reserve bank knows it is needed somewhere else, and it could get better compensation by putting it out somewhere else, and presuming it knows the needs of their section, you will get it when you need it, and somebody else will get it when he needs it, and that is what I call mobilizing the reserve.

Senator REED. Do you know of any reason why the member banks would not want to borrow it back?

Mr. UNTERMYER. Yes; there are times when they have no need for it.

Senator REED. And they won't get any interest.

Mr. UNTERMYER. They won't get any interest.

Senator REED. Do you know of any banks that are willing to take money over and put it into the vaults of another bank and not get any interest on it?

Mr. UNTERMYER. I know of banks in a condition where they can not lend their money.

Senator REED. Perhaps you can not loan it for a few days.

Mr. UNTERMYER. There are seasons.

Senator REED (continuing). But they won't deprive themselves of it.

Mr. UNTERMYER. No; but there are times that will come when they can not utilize it to great advantage, and there are times that will come when they can make money on it, and times when other people could make money on it.

Senator REED. Mr. Untermyer, do you think—say there is a regional bank up in my country or anybody else's country, and banks put their money in there and do not get any interest on it—do you think that they will not want to borrow that money back at a low rate of interest charge when they can put it back into trade?

Mr. UNTERMYER. I think there are times when they will need it and times when they will not need it, and these nine directors in the different sections will know when one section needs money and when another section needs money; and there will be certain banks that will know when they want a large part of that money, and times when they are not entitled to very much of it, and they will be satisfied with the arrangement.

Senator REED. An arrangement that I must take my money and put it in a bank, get no interest on it, and the gentlemen over there determine if I can get it back or somebody else will get it.

Mr. UNTERMYER. Yes; some other section.

Senator REED. And I have nothing to say about it?

Mr. UNTERMYER. But you have. Those people are your representatives.

Senator REED. Do you think these people are going to be my representatives?

Mr. UNTERMYER. I hope so. Don't you think so?

Senator REED. No.

Mr. UNTERMYER. Who is going to elect them?

Senator REED. I do not think they will be representatives of anything except a few big bankers, and I will tell you why.

Mr. UNTERMYER. I would be very much surprised; I should not be an advocate of this bill if I felt that way about it.

Senator REED. I can name a dozen banks that will govern out through my section of the country, that control the country correspondents with whom they have business relations. They will be able to concentrate their funds and elect anybody they please.

Mr. UNTERMYER. Do you think that will be so when the country correspondents know that each one of them has as large a voice in that bank as the big bank? For instance, where one bank has 500 correspondents, the vote of each one of those 500 will be as big as the vote of the central bank?

Senator REED. That is true.

Mr. UNTERMYER. The correspondents will be no longer dependent on the central banks as they are now, and not so likely to obey the mandate of the central bank.

Senator REED. I think this is exactly what would happen: These country banks have got to put their money into certain great city banks because they make money by putting it there. You take away part of that money and that bank will be still be a big bank, it will still have relations with these people, and the same considerations which led them originally, the small banks, to have confidence in the management of one bank—the domination of that big banker of that

section of the country, his skill and his knowledge all united, will enable him to control, to a large extent, the funds of those men so that the big fellows will be the men who are elected.

Mr. UNTERMYER. The regional bank will be the big fellow then.

Senator REED. Yes; but they will control the regional bank. Their interest is greater, their activity will be greater, they have a great advantage in location and in knowledge of the situation, and I think I could name the directors now, in that region, if I just knew where you would put the limits of the region, and they would be the big bankers of that region.

Mr. UNTERMYER. I do not think so. And if so, they won't remain there long unless they are absolutely just to the small banks, because the balance of power is 10 or 100 to 1 in the control of these banks—it is always with the smaller man. They can turn out any management at any time. It is not just to the small man.

Senator REED. Certainly. The small bankers are in the majority, and they could elect anybody. They might get together and elect some men who were utterly incompetent, and that would be another danger.

Mr. UNTERMYER. That is a danger of all forms of Government. You can never guard against that in any system.

Senator REED. I notice you go back to that a good deal, and I have got to finally wrestle with you on that.

Mr. UNTERMYER. No; it won't be a wrestle.

Senator REED. There is just this difference: You have got a system and compel me to come into it and make me a part of your system. That is one thing. You give me my rights as an independent where I am not forced into a system, where I can go where I please, where I have the courts of law to protect me, and I can defy you or any other man as long as I am within my rights, under the law, if I have the law back of me.

Mr. UNTERMYER. What is the practical application of that? It is a very fine sentiment to which we all agree.

Senator REED. The practical application—it is a fine sentiment, but one we are likely to lose sight of. The practical application is every banker in this country to-day is an independent banker.

Mr. UNTERMYER. I wish that were so. It is not.

Senator REED. Except as his interest calls him to one point or another, he is in an independent position. You create this system and he must surrender that independence to a certain extent and come into it. You compel him to become a member of the bank, along with 600 or 800 other banks, and in that system he is not an independent factor, because the votes of the other men may overrule his will and his desire, and you have built up a system that I am afraid—I am not making any final statement about it; I may change my mind—furnishes the machinery by which the great financiers of this country can absolutely control these 12 banks.

Mr. UNTERMYER. I think it adds so much to the independence of those banks. That the smaller man would grab it immediately, because it makes him a factor as big as the biggest man.

Senator REED. I do not think it does.

Senator HITCHCOCK. Let me ask a question there, Senator, if I may interrupt. I think Mr. Reynolds, of Chicago, testified before the committee he had 6,000 country bank deposits.

Mr. UNTERMYER. Yes; he has.

Senator HITCHCOCK. Six thousand country banks doing business with him. Now, I would like you to compare the influence of Mr. Reynolds in this new organization that is to be formed with the country banker, who is only in contact with 10, 15, or 20 different banks, with Mr. Reynolds who is in contact daily with 6,000?

Mr. UNTERMYER. He will cease to be in contact with them when this bill goes into effect, and he will be just 1 of 6,001; where he is now 1 to 6,000, he will be 1 of 6,001.

Senator REED. I wish I could believe that.

Mr. UNTERMYER. He is outvoted in the organization?

Senator HITCHCOCK. In the voting power, you mean?

Mr. UNTERMYER. The voting power in that organization.

Senator HITCHCOCK. I am not talking about the voting power.

Mr. UNTERMYER. Individuality will always dominate. You can not make one man as big as another man, no matter what his rights are.

Senator HITCHCOCK. Here are 6,000 banks doing business with him because they like his style of business, doing it with him voluntarily. I ask you what his influence with these 6,000 banks will naturally be as compared any one with another?

Mr. UNTERMYER. What would you suppose his influence with those banks would be after this bill is working as compared with what it is to-day? To-day they are dependent on him for their accommodations—all 6,000. After this bill goes into effect he has no more voice than any one of the 6,000.

Senator HITCHCOCK. Why, didn't you tell us these country banks will continue to deposit with the city agents, and that was one of the virtues of the bill—that it would not deprive him of his correspondents; that he would still have recourse, if he was turned down by the reserve bank, to the correspondents?

Mr. UNTERMYER. He will have another place now. He will no longer be under the tutelage and guardianship of Mr. Reynolds. He will not have anything like the power over them he has now.

Senator HITCHCOCK. The fact is these 6,000 country banks are doing business with Mr. Reynolds of their own volition. You could go to a dozen other banks—in fact, you could go to St. Louis, Omaha, Minneapolis, and a large number of towns there—and they all do business with him now of their own choice.

Mr. UNTERMYER. I understand that.

Senator HITCHCOCK. And the relations are those of friendship.

Mr. UNTERMYER. The relations are those of business.

Senator HITCHCOCK. Business friendship?

Mr. UNTERMYER. Business, pure and simple.

Senator HITCHCOCK. It has been argued that these relations are not entirely broken off. It has been given here as an argument in favor of the bill, when I put to witnesses this question, What recourse is a country banker going to have when the reserve bank refuses to discount the paper or refuses to discount enough of paper——

Mr. UNTERMYER (interposing). You have no right to assume that.

Senator HITCHCOCK (continuing). They have said, "We can go to the city correspondents, because we have other moneys deposited with the city correspondent and in his possession, and he will be required to keep up his relations with us." If that is true, the city bank

is going to continue to have a preponderance of influence in this organization, as Senator Reed has said.

Mr. UNTERMYER. I do not think so, because the man will go to another place, and he has a voice quite as loud and potent as Mr. Reynolds's voice in this organization.

Senator BRISTOW. Suppose in our part of the country, the bank of Kansas City—there is no regional bank in Kansas City and no regional bank in Omaha, but they have got to have deposits there or to have a Kansas City exchange. Do you think it is going to deprive the First National Bank of Kansas City of its influence?

Mr. UNTERMYER. They can do an exchange business with the regional bank.

Senator BRISTOW. At St. Louis?

Mr. UNTERMYER. Yes.

Senator REED. They would not do it out there?

Mr. UNTERMYER. They can; and that is what the provisions are made for.

The CHAIRMAN. Mr. Untermyer, I would like to ask you one question. It is 6 o'clock, and I suppose we will have to adjourn in a few minutes. I want to ask you a question about the liquid character of commercial paper.

Mr. UNTERMYER. Yes.

The CHAIRMAN. Which, I think, is the vital and major point in this system.

Mr. UNTERMYER. It is at the foundation of the whole bill and the whole system.

The CHAIRMAN. The term "commercial paper" is well understood in European countries, where it is used in the character of the transaction such as you describe in your description of commercial paper. I want to call your attention to the tables of the distribution of money in the United States, found on page 51 of the comptroller's report of 1912, in which it appears that of the $3,284,500,000 in circulation in the United States, $1,720,000,000 of it, or 47 per cent, or $17.98 per capita of that money, is in the hands of the average citizen and not in the banks at all. In the banks, according to the report of 1912, was $1,653,000,000, and in the Treasury of the United States was $364,000,000. Now, this commercial paper, against an actual transaction in the hands of the Federal reserve bank running with a short maturity—when it does mature is it not practically paid out of the pockets of the people, out of this reservoir of $1,700,000,000 in the pockets of the people?

Mr. UNTERMYER. If it is genuine commercial paper it has got to be, because it represents something that has reached the consumer and gone into consumption.

The CHAIRMAN. It takes this money from the consumer?

Mr. UNTERMYER. Yes.

The CHAIRMAN. That is the gist of this matter, is it not?

Mr. UNTERMYER. Yes.

Senator REED. I challenge the statement that it has gone into the hands of the ultimate consumer.

Mr. UNTERMYER. Presumably it has.

Senator REED. Presumably it has; but take the case of a man who buys $1,000,000 worth of corn. He buys it in the State of Kansas and gives his note for it; and he ships the corn to St. Louis, and it

goes into an elevator and stays in the elevator for perhaps six months. It is finally shipped to a mill. It goes out into the hands of the fellow that eats corn meal probably a year after that. There is no use in assuming that the transaction is going to be closed up in 45 days and somebody is going to have consumed the product and you have gotten the money out of his pocket. We do not want to follow such a will-o'-the-wisp as that.

Mr. UNTERMYER. It is not a will-o'-the-wisp; it is an article that goes into consumption.

Senator REED. I want to be perfectly fair about it, and I grant you that where a man buys that corn and gives his note, he is likely to realize the money on the corn within a short time, and therefore he may be in shape to go and take up his note. But to talk about going out and getting it out of the pockets of the people—this $17 that is in their pockets—you have got to have plenty of time to work that out. You can not liquidate a note within 45 days.

Mr. UNTERMYER. That is where it comes from ultimately, from the pockets of the people. In the case of a man who goes and borrows money to build a factory or to buy a farm, that note does not liquidate itself.

Senator REED. Not so quickly; no.

Mr. UNTERMYER. It may never liquidate itself.

Senator WEEKS. Does not the same amount of money come back into the pockets of the people during the same time, so that when the transaction is completed the people have the same amount of money as when they commenced?

Mr. UNTERMYER. No; they have the same amount less what they have spent for corn?

Senator WEEKS. But presumably they replenish that?

Mr. UNTERMYER. Presumably, but does this get out into consumption. That is the point of it.

There is one subject, Mr. Chairman, I would like to refer to, and that relates to the report of the House committee which accompanies this bill.

Senator BRISTOW. I have a lot of questions that I would like to ask, which I deferred this afternoon.

Mr. UNTERMYER. I am very sorry, but I came down with the distinct understanding that I was to be relieved this afternoon.

Senator BRISTOW. Can't we finish with the witness now? This is the second time we have had witnesses here and I have not had an opportunity to ask questions which I desire. Mr. Hulbert was here, and he had to go to Chicago, and now I am not going to have an opportunity of interrogating Mr. Untermyer.

The CHAIRMAN. The Senator from Kansas should know that the Chair can not control the time of the witnesses before this committee.

Senator BRISTOW. I know the chairman can not, but I should have the same opportunity to ask questions as other members.

The CHAIRMAN. The chairman of this committee has only asked one or two questions this afternoon.

Senator BRISTOW. The chairman of the committee has not taken up much time, and neither the chairman nor any member of the committee has taken up time and wasted it; I do not mean that; but I have not had an opportunity to ask any questions.

Mr. UNTERMYER. Would it be possible to sit 15 minutes longer?

Senator NELSON. Can it not go over until another day?

Mr. UNTERMYER. I can not return again I am afraid.

The CHAIRMAN. Will the committee let the witness conclude this statement, or does the committee wish to cut him off?

Mr. UNTERMYER. I want to be at the service of the committee.

Senator HOLLIS. I move that we extend the time of adjournment to 15 minutes.

Mr. UNTERMYER. It will only take me two or three minutes. I am referring to the House report, at page 52. accompanying this bill, in which section 15 is discussed, as follows:

> The desirability of opening an outlet through which the funds of Federal reserve banks might be profitably used at times when it was thought to facilitate transactions in foreign exchange or to regulate gold movements.
>
> In order to attain these ends it is deemed wise to allow a reserve bank, first of all, to buy and sell from anyone whom it chooses, the classes of bills which it is authorized to rediscount. The reserve banker evidently would not do this unless it should be in a position which, as already stated, furnished a strong motive for so doing.

I think that is an error, because there is no power that I can see in the bill for a bank to buy and sell bills or notes from anyone whom it chooses, unless it is the bills which it is authorized to discount. The framers of the bill must have meant that the bill gave a right to buy domestic bills of exchange.

Senator NELSON. It does not cover domestic bills, it only covers foreign bills.

Mr. UNTERMYER. No; it does not, and evidently it should.

Senator HITCHCOCK. You think it ought to?

Mr. UNTERMYER. I think it should.

Senator HITCHCOCK. Let me ask you, Suppose it buys bills of exchange and commercial paper in the open market: Does not that detract from one of the arguments in favor of this measure? We have argued that one reason why the notes of these regional reserve banks are so safe is because they have the indorsement of the member bank. Those notes they buy in the open market would not have that indorsement?

Mr. UNTERMYER. No, they would not; but at the same time a certain proportion of such purchases, at different times, might be absolutely essential in order to keep down the rate.

Senator HITCHCOCK. Would you base currency on that paper?

Mr. UNTERMYER. No; I would not base currency on that paper, but I would give the reserve banks the right and power to control and prevent very high rates in a community by being able to go in and buy paper.

Senator NELSON. These must be accepted bills of exchange?

Mr. UNTERMYER. Yes. They would have to be of very high order.

Senator HITCHCOCK. That would be all right where your 12 reserve banks are located, but what about the other localities?

Mr. UNTERMYER. The 12 regional banks would cover the whole country.

Senator HITCHCOCK. Yes; but how are you going to buy paper out in Podunk?

Mr. UNTERMYER. Suppose a merchant comes to them and says that three or four banks in this town are going to put the rate up to 12

per cent. There is plenty of high-class paper and we want you to relieve that situation. They ought to be in a position to do that.

Senator HITCHCOCK. You are only going to have 12 centers in the United States, and you will have people living 200 miles, perhaps, distant from your reserve bank who will sell paper to the bank?

Mr. UNTERMYER. I think when a situation arose like that the mere knowledge that relief could be granted and protection furnished against such oppression would render it rarely necessary to furnish the protection.

Senator WEEKS. I think the proposition to let the banks go into the market and purchase paper is a very bad one, myself; but I want to ask you, Mr. Untermyer, if you think it is possible for 12 banks, with $100,000,000 of capital, to compete successfully with 25,000 banks having $2,000,000,000 of capital in controlling the rate?

Mr. UNTERMYER. Yes; I think the very fact that they buy a limited amount of paper in the market will affect the rate.

Senator WEEKS. You will have 12 joint-stock banks in this country with as much capital and as many resources as your reserve banks will have.

Mr. UNTERMYER. I realize that, but I do not think they would be comparatively so large if you consider the Government funds and the reserves and the capital of the reserve banks. They will be respectable banks, especially when operating in cooperation.

Senator WEEKS. They will come pretty near to it.

Mr. UNTERMYER. Oh, I know they will be very large.

Senator WEEKS. And they will have more capital?

Mr. UNTERMYER. Yes; but it won't be so liquid. I realize that there is that difficulty, and that is one of the arguments in favor of a less number of reserve banks; but I think the argument on the other hand that will more than overshadow that is the assurance that you will have banks freer from financial control and more responsive to the needs of their member banks.

Senator REED. Mr. Untermyer, suppose you undertake to force the banks in here in 60 days or 90 days—the national banks—and the national banks simply say we will take out State charters or go into liquidation. That would have a most disastrous effect on this country, temporarily, would it not?

Mr. UNTERMYER. Unless you set up this system and go along without them; but there are so many advantages to them in this bill I do not believe you can fairly consider that without the range of probabilities. But you ought, it seems to me, and I have suggested it, to set up some alternative system here.

Senator HITCHCOCK. You are not in favor of giving the banks the option of coming in or staying out. You believe in compelling them to do it in 90 days?

Mr. UNTERMYER. I think in a limited time. I think if you give them a year to consider the question they will all simply postpone their action for a year.

Senator REED. And if we have a money trust in this country, as some people suspect, and you have spent some time in proving, in that year's time that money trust might be doing some pretty disastrous things to the business in this country, might it not?

Mr. UNTERMYER. I think it would be a very dangerous thing to postpone the operation of this bill for a year.

Senator REED. And if you postponed it for 90 days, you think a well-organized and well-equipped money trust could not do some things of that kind?

Mr. UNTERMYER. If you are going on that basis, you might better sit down and surrender right away and let the financial interests write this bill.

Senator REED. No; but had better let the system stand as it does stand, with a place where every independent banker can go in the hour of need and not have to trifle with the other banks; and then if we had a money trust that we will have to attend to as a separate question.

Mr. UNTERMYER. Senator, I do not think it is feasible for the reasons I have already stated. It would be much more satisfactory if it could be made feasible.

Senator NELSON. Mr. Untermyer, will you prepare a bill with the amendments you have suggested and send it to the chairman of the committee? The committee can then have it printed, and in that way we can get at your recommendations.

Mr. UNTERMYER. I would rather have it printed myself.

Senator NELSON. Oh, no; you typewrite it and the chairman can have it printed for the committee so that every member could have it.

Mr. UNTERMYER. Yes; I will endeavor to do that.

FURTHER STATEMENT OF WILLIAM W. FLANNAGAN, MONTCLAIR, N. J.

Mr. FLANNAGAN. Liquid assets are available cash and debts due to the bank maturing within a short period, which will be, or are supposed to be paid when due.

It must be remembered that the business of banking consists of the exchange of debts; the operation of converting debts into coin constitutes actually such a small proportion of such business that it may be ignored in the definition of banking for all practical purposes. It is necessary for the existence of the business that this exchange of debts shall be continuous. The making of long-time loans exclusively would be an investment business, not banking. When the conversion of bank debts into coin becomes general the normal business of banking ceases. We then call such a condition commercial crises, which, unless checked, ends in financial panics and general destruction of values. Hence, in order that the business of banking—or exchange of debts—shall be continuous the debts due to the bank must have short maturities. Not only for continuity but from the nature of the business itself is this necessary.

The banker could not survive if he was confined to the income from his own capital, for the expenses incident to the business are incurred in order that he may derive income from the capital of others. This borrowed capital is represented by his debts to his customers called "deposits" and his debts to the public called "circulation." These debts are payable on demand.

Experience has demonstrated that the creditors or customers holding these "deposits" and the public holding these "notes" do not

demand the payment of the debts they represent all at one time. The law of average applies, similarly as it does in the business of life insurance.

Hence, the banker, in order to preserve the continuity of his business, must produce an average for the debts due to him represented by his loans and discounts, and this he can do only by having short maturities. He can not tell at what time his creditors may call upon him for the payment of his debts beyond the normal average, and must therefore adjust the maturities of the debts due to him, as indicated, so that his resources will be available or liquid. If he invests in stocks and bonds—so-called marketable securities—or long-time loans to a greater extent than the demands on him for payment by his customers, he is dependent upon finding a buyer before the maturity time comes, and "theres the rub." The buyer may not be available, and then suspension of payment is forced, or if the buyer is found he may demand such sacrifice that temporary suspension may appear preferable.

There is yet another reason considered from the viewpoint of the general welfare. These debts due by the banker payable on demand are accepted by the people as a substitute for coin—i. e., used as money—and it therefore becomes to the interest and welfare of the people, not only that the bankers should be encouraged in the conservatism of retaining at all times sufficient available liquid assets for resubstitution, but also that restrictions should for the protection of the people be thrown about this substitution of debt for coin as a matter of safety. Hence, you limit circulation and require reserves by provision of law. Not only are these restrictions needed for the bankers, but for the people themselves, as both are prone to make this substitution to an excessive degree by reason of the mutual benefit thereby arising. This mutual benefit is called "credit facilities."

It is most desirable that these "credit facilities" should always exist. The normal interchange of property and service in a highly developed civilized community can not continue without such facilities. That these facilities may always be available, there must exist some source from which in times of stress or distrust (which times seem inseparable from the selfish aspirations of human nature) that credit may emanate. This means some source or place or combination whereby at such times a debt can be created which will be willingly and generally accepted in lieu of coin in connection with the interchange of property and service.

Hence you have provided a combination of banks in the Federal reserve system, with the Government, which is the foundation of all credit, directly supporting them as the source from which this reserve credit (or ability to incur debt) may be drawn.

This reserve credit is utilized by the rediscount of paper held by the member banks, which means the transfer of debts due to such member banks by its customers to the reserve banks, in substitution for the debt of the reserve bank, which latter debt, whether in the form of deposit or circulating note, can continue to be used as a substitute for coin. The debt thus transferred by the member bank must be from its liquid assets or short time maturities, which will

liquidate themselves by payment, or else you would have to provide some reserve source of credit for the reserve banks themselves and thus have an endless chain.

It should not be overlooked that the restrictions on the substitution of bank debts for coin, and the facilities provided by law whereby the banks may exchange the debts due to them for other bank debts which serve as such substitute, are not made nor intended to be made for the benefit of the banks, but for the benefit of the people whom the banks serve. The functions of banking, which are "discount," "deposit," and "circulation," are only names given to the different forms in which banks interchange debts, which interchanges are the growth and development from the necessities of trade and commerce in supplying the wants of organized society.

Senator NELSON. Mr. Chairman, I move we adjourn until 11 o'clock to-morrow.

The CHAIRMAN. The chair desires to submit for the record certain tables showing the distribution of money in the United States, the cash on hand in banks reporting to the Comptroller of the Currency, the classification of deposits in each class of banks, and the amount and class of loans of all national banks as of June 14, 1912.

(The tables referred to are as follows:)

Classification of deposits in each class of banks as of June 14, 1912.

Classification.	Number of banks.	Individual deposits subject to check without notice.	Savings deposits or deposits in interest or savings department.	Certificates of deposit.
State banks	13,381	$1,609,117,069.91	$657,477,220.31	$610,207,548.25
Mutual savings banks	630	15,907,801.72	3,592,530,070.33	96,528.65
Stock savings banks	1,292	178,127,748.36	574,822,459.57	87,099,928.02
Loan and trust companies	1,410	2,319,055,959.95	910,850,167.60	395,983,407.02
Private banks	1,110	78,339,600.91	26,868,853.68	46,651,290.14
Total, State, etc., banks	17,823	4,200,548,180.85	5,762,548,771.49	1,140,038,702.08
National banks	7,372	4,122,937,442.68	733,643,936.11	812,745,391.86
Grand total	25,195	8,323,485,623.53	6,496,192,707.60	1,952,784,093.94

Classification.	Certified checks.	Cashiers' checks outstanding.	Total.
State banks	$32,254,762.10	$10,921,297.42	$2,919,977,897.99
Mutual savings banks		123,427.41	3,608,657,828.11
Stock savings banks	795,385.48	2,052,338.18	842,897,859.61
Loan and trust companies	16,658,017.77	32,030,686.58	3,674,578,238.92
Private banks	304,237.00	330,637.17	152,494,618.90
Total, State, etc., banks	50,012,402.35	45,458,386.76	11,198,606,443.53
National banks	85,228,860.85	70,905,531.86	[1] 5,825,461,163.36
Grand total	135,241,263.20	116,363,918.62	17,024,067,606.89

[1] United States deposits not included.

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Cash on hand in banks reporting to the Comptroller of the Currency June 14, 1912.

Classification.	Number of banks.	Gold coin.	Gold certificates.	Silver dollars.	Silver certificates.
National banks	7,372	$149,294,417.78	$437,081,380.00	$12,637,221.00	$138,569,628.00
State banks	13,381	43,475,473.23	55,832,110.00	7,483,824.00	28,059,217.00
Mutual savings banks	630	2,613,101.74	3,040,620.00	21,575.00	1,522,101.00
Stock savings banks	1,292	13,099,102.11	3,292,340.00	809,660.00	1,445,841.00
Loan and trust companies	1,410	28,720,390.23	143,797,940.00	1,571,391.00	23,004,632.00
Private banks	1,110	1,186,901.65	502,700.00	433,724.00	482,750.00
Total	25,195	238,389,386.74	643,547,090.00	22,957,395.00	194,374,169.00

Classification.	Minor coins.	Legal tender.	National bank notes.	Cash not classified.	
National banks	$22,555,692.68	$188,440,207.00	$47,564,277.00		$999,142,821.46
State banks	9,884,265.50	35,374,475.00	24,568,164.00	$36,479,195.75	241,750,724.48
Mutual savings banks	245,994.27	1,378,566.00	3,370,411.00	3,993,692.28	16,186,061.29
Stock savings banks	828,452.46	2,579,310.00	3,400,118.00	3,811,178.99	29,266,002.56
Loan and trust companies	3,932,351.85	24,583,336.00	28,347,109.00	27,504,313.18	282,151,463.26
Private banks	291,251.53	766,159.00	1,031,608.00	2,755,310.20	7,450,404.38
Total	37,738,008.29	253,122,053.00	108,281,687.00	74,543,690.40	1,572,953,479.43

Schedule of loans running 90 days or less from Aug. 9, as shown by the reports of condition of 7,096 national banks.

	New York (36 banks).	Chicago (9 banks).	St. Louis (7 banks).	Central reserve cities (52 banks).	Other reserve cities (308 banks).	Country banks (6,736).	Total banks in United States (7,096).
A. On demand (one or more names)	$7,004,989	$6,196,249	$2,412,125	$15,613,363	$79,1[illegible]	$157,244,[illegible]	$252,144,[illegible]
B. On demand, secured by stocks, bonds, etc	128,361,990	19,759,293	5,276,533	153,397,816	107,662,020	122,[illegible],347	[illegible]
C. On time (two or more names)	125,527,742	73,754,071	23,814,102	223,[illegible]	[illegible],571,[illegible]	[illegible]	1,2[illegible]
D. On time, single name, without other security	116,050,948	32,356,018	11,0[illegible],301	[illegible]	243,[illegible]	[illegible]	[illegible]
E. On time, secured by stocks, bonds, etc	221,098,921	44,740,103	20,[illegible]	[illegible]	[illegible]	321,144,[illegible]	[illegible]
F. Secured by real estate mortgages, etc	[illegible]	[illegible]	12,861	[illegible]	[illegible]	[illegible]	[illegible]
90 days or less	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over 90 days	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total all loans	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sept. 25, 1912. Office Comptroller of Currency.

The CHAIRMAN. Also the following table showing [illegible] loans, [illegible] deposits, and bank deposits [illegible] by national banks [illegible]

for each call from January 29, 1906, to August 9, 1913, inclusive; also rates for money in the New York market for the corresponding month of the call.

1906.

	Jan. 29.	Apr. 6.	June 18.	Sept. 4.	Nov. 12.
Cash (in thousands)	$668,303	$620,000	$651,233	$626,013	$634,550
Loans	4,071,041	4,141,176	4,206,890	4,298,983	4,366,045
Individual deposits	4,088,420	3,978,467	4,055,873	4,199,938	4,289,773
Bank deposits	1,595,494	1,557,257	1,555,267	1,589,001	1,599,943
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	2½–60	2 –30	2 –6	2 –40	6 –27
Average	8½	9½	3¼	9½	7¾
Banks and trust companies	4 –50	4 – 6	2½–3	3 – 6	3 – 6
Time loans:					
30 days	8 – 8½	5 – 8	4 –4¼	....	....
60 days	4½– 7	5 – 7½	3¾–5¼	7 – 7½	7 – 8
90 days	4½– 6	5 – 6½	4 –5	6½– 8	6½– 7½
4 months	4½– 6	5 – 6	4¼–5	7 – 7½	6½– 7
5 months	4½– 5¾	5 – 6	4¾–5	6½– 6¾	6 – 6½
6 months	4½– 5¾	5 – 6	4¾–5	6½– 6¾	6 – 6½
7 months	4½– 5¾	5 – 5½	5¼–5¾	....	6
Commercial paper:					
Double names—					
Choice 60 to 90 days	4 – 5	4¾– 6	....	....	6 - 6½
Single names—					
Prime, 4 to 6 months	4¾– 5½	4¾– 6	....	....	6 - 6½
Good, 4 to 6 months	5½– 6	5 – 6½	....	....	6 - 7½

1907.

	Jan. 26.	Mar. 22.	May 20.	Aug. 22.	Dec. 3.
Cash (in thousands)	$695,503	$656,220	$691,581	$701,623	$660,785
Loans	4,463,267	4,535,844	4,631,143	4,678,583	4,585,337
Individual deposits	4,115,650	4,269,511	4,322,880	4,319,035	4,176,873
Bank deposits	1,676,926	1,637,158	1,685,540	1,595,493	1,387,886
Rates for money.					
Call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1¾–45	2 –25	1¼–3	1¾–6	2–25
Average	5	6½	2¼	3	14
Banks and trust companies	2 – 3	3 – 6	1½–2½	2 –2½	....
Time loans:					
30 days	5¼– 7	6 – 8	2½–3½	5 –6	15–18
60 days	4½– 7	6 – 7½	3½–4	5 –6½	8–12
90 days	5 – 7	5¾– 7	3¾–4¼	6 –7	8–12
4 months	5½– 6½	5¾– 6½	4 –4¾	6 –7	7– 8
5 months	5½– 6½	5¾– 6	4¼–4¾	6½–7	7
6 months	5½– 6½	5½– 6	4½–4¾	6½–7	6– 8
7 months	....	....	....	....	6– 7
Commercial paper:					
Double names—					
Choice, 60 to 90 days	5¾– 6½	6 – 6½	5 –5½	6 –6½	8 nom.
Single names—					
Prime, 4 to 6 months	5¾– 6½	6 – 6½	5 –5½	6 –6½	8 nom.
Good, 4 to 6 months	6½– 7	6½– 7	5½–6	6½–7	....

1908.

	Feb. 14.	May 14.	July 15.	Sept. 23.	Nov. 27.
Cash (in thousands)	$788,395	$861,326	$849,018	$868,424	$844,759
Loans	4,422,353	4,528,346	4,615,675	4,750,612	4,840,367
Individual deposits	4,105,814	4,312,656	4,374,551	4,548,135	4,720,284
Bank deposits	1,584,426	1,692,421	1,822,853	1,941,665	1,958,831
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½-2¼	1 -2	1 -1½	1 -2	1 -3
Average	1¾	1¾	1¾	1½	1¾
Banks and trust companies	1½-2	1 -1¾	1	1 -1¼	1 -1½
Time loans:					
30 days	....	2 -2¼	1½	....	....
60 days	3½-4¼	2¼-2¾	1¼-1½	1¾-2½	2½-3½
90 days	4 -4½	2¾-3	2 -3	2 -3	3 -3½
4 months	4¼-4¾	3 -3¼	2½-3½	2¾-3½	3½-4
5 months	4½-5	3½-4	2½-3¾	3 -3¼	3½-4
6 months	4½-5	3½-4	3¼-4	3¼-3¾	3½-4
7 months	....	4¼-4½	....	....	....
8 months	....	....	....	....	....
Commercial paper:					
Double names—					
Choice, 60 to 90 days	5¼-6	3¾-4½	3½-4	3½-4	3½-4½
Single names—					
Prime, 4 to 6 months	5 -6	3¾-4½	3½-4	3¾-4½	4 -5
Good, 4 to 6 months	5½-6	4 -4½	4 -5	4½-5	4½

1909.

	Feb. 5.	Apr. 28.	June 23.	Sept. 1.	Nov. 16.
Cash (in thousands)	$860,117	$878,457	$885,915	$854,071	$804,800
Loans	4,840,766	4,963,110	5,035,883	5,128,882	5,148,787
Individual deposits	4,699,682	4,826,060	4,898,576	5,009,893	5,120,442
Bank deposits	2,035,169	2,046,753	2,034,663	2,018,813	1,886,200
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1½-3	1½-2½	1½-2	2¼-3	3½-6
Average	2¼	1⅞	1⅞	2⅝	4¼
Banks and trust companies	1½-2	1¼-1¾	1½-1¾	2¼-2¾	....
Time loans:					
30 days	....	....	....	....	....
60 days	2¼-2¾	2¼-2½	2 -2½	2¾-3¼	4½-5¼
90 days	2½-3	2¼-2¾	2¼-2¾	3¾-4	4½-5¼
4 months	2½-3	2½-2¾	2¾-3	3½-5	4½-5
5 months	2½-3¼	2½-3	2¾-3½	3¾-5	4½-5
6 months	3 -3¼	2¾-3	3¼-3½	4½-5	4½-5
7 months	3¼-3½	3 -3¼	....	....	....
8 months	....	....	3½-4	....	....
Commercial paper:					
Double names—					
Choice, 60 to 90 days	3 -3¾	3 -3¾	3 -3½	3¾-4½	4¾-5½
Single names—					
Prime, 4 to 6 months	3½-4	3½-4	3½-4	4 -5	5 -6
Good, 4 to 6 months	4 -4½	4 -4½	4 -4½	4½-5	5½-6½

1910.

	Jan. 31.	Mar. 29.	June 30.	Sept. 1.	Nov. 10.
Cash (in thousands)	$833,079	$834,895	$820,773	$851,685	$816,071
Loans	5,229,503	5,432,093	5,430,150	5,467,638	5,450,644
Individual deposits	5,190,835	5,227,851	5,287,312	5,145,658	5,304,7[illegible]
Bank deposits	1,966,594	1,988,000	1,900,135	1,943,691	1,906,360
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	½–14	1½–3½	2 –3½	1½–13	2 –4¾
Average	4½	2¾	2¾	2	3½
Time loans:					
60 days	3¾– 4¼	3½–4	3 –3½	3½– 4½	4 –5¼
90 days	4 – 4¼	3½–4½	3 –3¾	4 – 4½	4 –5¼
4 months	4 – 4½	3¾–4½	3½–3¾	4½– 5	4 –5¼
5 months	4 – 4½	3¾–4½	3¾–4¼	4½– 5	4 –5
6 months	4 – 4½	3¾–4½	4 –4½	4½– 5	4 –5
Commercial paper:					
Double names—					
Choice, 60 to 90 days	4½– 5	4 –5	4½–5	5¼– 5¾	4¾–6
Single names—					
Prime, 4 to 6 months	4½– 5	4¼–5	4¾–5¼	5½– 6	4¾–6
Good, 4 to 6 months	5 – 5½	4¾–5¾	5 –6	6 – 6½	5½–6½

1911.

	Jan. 27.	Mar. 7.	June 7.	Sept. 1.	Dec. 5.
Cash (in thousands)	$856,267	$908,036	$946,331	$895,475	$862,794
Loans	5,402,642	5,558,039	5,610,787	5,663,411	5,659,109
Individual deposits	5,113,221	5,304,624	5,477,991	5,489,011	5,536,042
Bank deposits	1,991,188	2,224,719	2,147,441	2,088,187	2,085,106
Rates for money.					
New York call loans:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1¾–6	1½–2½	2 –2½	1¾–2½	2½–6
Average	3½	2¼	2¾	2¼	4
Time loans:					
30 days	3	....	....	....	3¾–5
60 days	3 –3¾	2¼–2¾	2½–3	2¾–3½	3¾–4½
90 days	3 –3¾	2¾–3	2¾–3	3¼–3¾	3¾–4½
4 months	3½–4	3 –3½	2¾–3	3¾–4	4 –4½
5 months	3¾–4	3 –3½	3 –3¼	3¾–4	4 –4¾
6 months	3½–4	3 –3½	3¼–3½	3¾–4	4 –4½
Commercial paper:					
Double names—					
Choice, 60 to 90 days	3½–4½	3½–4¼	3½–4	4 –5	4 –5
Single names—					
Prime, 4 to 6 months	3½–4½	3½–4¼	3¾–4	4½–5	4½–5
Good, 4 to 6 months	4¼–5	4¼–5	4¼–5	5 –5½	4½–5½

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 18

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE

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GEORGE P. McLEAN, Connecticut.
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JAMES W. BELLER, *Clerk*.

1912.

	Feb. 20.	Apr. 18.	June 14.	Sept. 4.	Nov. 26.
Cash	$950,497	$931,689	$945,203	$895,950	$859,098
Loans	5,810,433	5,882,166	5,953,904	6,040,841	6,058,982
Individual deposits	5,630,559	5,712,051	5,825,461	5,891,670	5,944,561
Bank deposits	2,381,214	2,248,214	2,178,163	2,177,488	2,101,805
Rates for money.					
Call loans, New York:					
Stock exchange—	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Range	1¾-2½	2 -5	2 -3	3 -7½	(1)
Average	2¼	3	2¾	4½	(1)
Time loans:					
30 days	....	....	....	....	(1)
60 days	2½-2¾	3 -3½	3	4¾-6	(1)
90 days	2¾-3	3¾-3¾	3 -3¼	5 -6	(1)
4 months	3 -3¾	3½-4	3¼-3½	5 -6	(1)
5 months	3 -3½	3½-4	3½-3¾	5 -6	(1)
6 months	3 -3½	3½-4	3½-4	5 -6	(1)
Commercial paper:					
Double names—					
Choice, 60 to 90 days	3½-4	4 -4½	3¾-4¼	5 -6	(1)
Single names—					
Prime, 4 to 6 months	3½-4½	4 -4½	3¾-4½	5½-6	(1)
Good, 4 to 6 months	4½	5	4 -4¾	6 -6½	(1)

[1] None compiled.

1913.

	Feb. 4.	Apr. 4.	June 4.	Aug. 9.	
Cash (in thousands)	$933,417	$888,283	$913,982	$899,769	....
Loans	6,125,029	6,178,096	6,143,028	6,168,555	....
Individual deposits	5,985,432	5,968,787	5,953,461	5,761,338	....
Bank deposits	2,310,590	2,192,345	2,120,551	2,108,550	....
Rates for money.					
New York call loans:					
Stock exchange—				*Per cent.*	
Range	....	....	....	2 -2½	....
Average	....	....	....	2¼	....
Time loans:					
60 days	....	....	....	3½	....
90 days	....	....	....	4½	....
4 months	....	....	....	5	....
5 months	....	....	....	5¾-6	....
6 months	....	....	....	5¾-6	....
Commercial paper:					
Double names—					
Choice, 60 to 90 days	....	....	....	6 -6½	....
Single names—					
Prime, 4 to 6 months	....	....	....	6 -6½	....
Good, 4 to 6 months	....	....	....	6½-7	....

The CHAIRMAN. The committee will stand adjourned until 11 o'clock to-morrow.

(Thereupon, at 6.15 o'clock p. m., the committee adjourned until to-morrow, Tuesday, September 30, 1913, at 11 o'clock a. m.)

TUESDAY, SEPTEMBER 30, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 11.07 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. Mr. Conant, the committee will hear you now. I wish you would state your name and what your experience is.

STATEMENT OF CHARLES A. CONANT, OF NEW YORK, N. Y.

Mr. CONANT. I am Charles A. Conant, of New York.

The CHAIRMAN. I would like you to briefly state your experience, Mr. Conant, for the information of the committee. Under an agreement of the committee, I believe, we will not cross-examine you until you have finished, unless you prefer to be cross-examined as you proceed.

Mr. CONANT. No. I will state my experience first and then I will make my request to the committee in that respect.

I was sent by the Secretary of War to the Philippine Islands in 1901 to prepare the currency plan for those islande—the plan which was enacted by Congress in March, 1903. I was also invited by the Government of Mexico to advise them as to their monetary reform in 1905, which was based practically on the system adopted for the Philippines.

In 1904 or 1905 I assisted the War Department in preparing the plan which is in operation in Panama, which gave parity to Panama money with United States currency. More recently, in 1911 and 1912, I prepared the plan of monetary reform for Nicaragua, which is now in operation there.

Senator O'GORMAN. Will you state whether you are now acting in an official capacity in any banking institution?

Mr. CONANT. No; I have been simply a student of the subject, and was for a considerable time Washington correspondent of commercial papers, which brought me into contact with the Treasury in matters of that kind. My practical banking experience was for five years with the Morton Trust Co. of New York, which ended in 1906.

Senator O'GORMAN. In what position?

Mr. CONANT. My position was that of treasurer, but in that respect was largely nominal. I had charge of special matters which came up there. I did not have charge of the routine of the loans, so much as special matters that came up from time to time.

Senator O'GORMAN. Have you been connected with any other institution?

Mr. CONANT. No; only in a nominal way with the Bank of Nicaragua. The bankers in charge of the loan have attended to its affairs thus far, and I have attended only one or two meetings.

Senator O'GORMAN. You have written on the subject of banking?

Mr. CONANT. Yes; I have written two books. One A History of Modern Banks of Issue and the other on The Principles of Money ˋ Banking.

Now, in compliance with the suggestion of Senator Owen, I would be obliged to the committee if they will defer their cross-examination and allow me to complete my statement. I am perfectly willing to answer any questions that may be asked, in due time, but I would like to make my statement in a consecutive way, briefly, on one point at a time, and then answer questions pertaining to that when I am through, because I think, possibly, I may anticipate many questions as I go along.

Senator O'Gorman. What, if any, are your banking affiliations or associations now? Are you connected with any banks?

Mr. Conant. None whatever, except, as I say, I am a director of the National Bank of Nicaragua. But I am not here representing any organization. It so happens that I was out of the country when the Citizens' League was most active, and I am not a member of that nor of the American Bankers' Association. I am here perfectly independent, speaking as an individual from my knowledge and study of banking problems.

Senator O'Gorman. That is what I supposed, but I wanted that understood by the committee.

Mr. Conant. Yes. I do not represent anybody except myself. I would like, first, if agreeable to the committee, to refer to a few of the underlying principles of banking which I think have been perhaps a little befogged or not elucidated in a manner I would like to have seen them elucidated by some of the previous witnesses.

The question has been asked here, What harm is there in having plenty of money and a low rate of interest; and why the volume of money should be controlled by a central organism?

I would like to refer to this subject of control and to the reason why we can not always have plenty of money when we want it. "Control" is hardly the proper word to apply to the supervision exercised by the central banking organism or by a series of any such organisms over the money market.

It is simply the exercise of enlightened foresight, and it is highly desirable, I think, as demonstrated by banking experience during the past two generations, that there should be such enlightened supervision and such anticipation of changes in money-market conditions; there can not be control of an arbitrary sort. And in the working of the mechanism I will undertake to show how it works in harmony with market conditions. The banks, if they make rates which are arbitrary, can not maintain them. That occurs even to-day in the case of the Bank of England and the Imperial Bank of Germany. If they make rates of discount higher than market conditions justify, the market simply underbids them. This shows that rates for money can not be arbitrarily controlled. The most that can be accomplished by one or more central organisms is that these institutions, representing the credit centers of the country, are able, through their officials, to look ahead and study conditions throughout the world, instead of being limited, as a little country bank in this country would, to purely local conditions. They study the conditions throughout the world, and if they see clouds gathering they take measures to guard against the storm and prepare the market for a gradual adjustment to the new conditions, instead of having that adjustment sudden, violent, and disturbing. But if these institutions see fit to fix a discount rate which is so high that the supply of capital in the

market is able to underbid it, then such underbidding takes place; there is, therefore, no arbitrary control which is exercised or can be exercised—no fixed rates for capital. The most that can be done is to influence them slightly in harmony with conditions and not to fly in the face of those conditions.

Now, in the case of the Bank of England, which is very peculiarly constituted and quite different from its continental banks, the bank has frequently to take special measures to support the discount rate. The raising of the discount rate was considered for a long time by economists and bankers as a very efficient means for controlling the movement of money and capital, but it has not proved absolutely efficient, since there has been so much money and capital accumulated in the great joint-stock banks of England, France, and Germany. It is efficient so long as the bank stood alone as the biggest institution there was, but it has ceased to be absolutely efficient. The result is that when the Bank of England believes the rate of discount should be increased and the joint-stock banks have plenty of money, and they offer it below the Bank of England's rate, the Bank of England brings about a degree of influence upon the supply of capital by doing what is called "borrowing from the market"—that is, they will sell Government bonds or consols at a certain price to the joint-stock banks or private banks with the privilege of repurchase. The result of that is, of course, to draw from the market such currency and credit as the joint-stock banks have had to pay for the consols. In that way the Bank of England gets a certain degree of control over the market. But even though that occurs, they could not maintain a fixed rate that would be excessive and arbitrary; they can only do it in dealing with the business of the merchants between one rate and another rate. In other words, they can only anticipate slightly the general tendency of money-market conditions.

Now, of course, the reason why money is not plentiful at times, why we can not have——

Senator HITCHCOCK. Mr. Conant, I do not think the stenographer will be able to get what you say; you are talking so fast. I can not understand it myself.

The CHAIRMAN. I wish you would speak a little louder.

Mr. CONANT. Yes; I will try to.

Now, I understand it to be the purpose of the pending bill to establish some sort of supervision and foresight in this country; that it is necessary to protect our international exchanges and to protect our markets and to hold a sufficient quantity of capital in the country to prevent the depletion of our gold reserves or the depletion of our credit resources, such as occurred in 1893 and 1907 and on previous occasions. Of course the reason for a high discount rate fundamentally is the scarcity, not of currency, necessarily, but of capital and credit. The determination whether loans are easy to obtain is based primarily upon the supply of capital, free capital, and the supply of free capital is indicated by the condition of the gold reserve. Experience shows that certain gold reserves are necessary to maintain safety against a certain supply of floating capital. You can not have these gold reserves absolutely depleted and exhausted without invoking a crisis; the gold reserve is the barometer of the supply of capital and credit. If the gold reserve begins to be de-

pleted, it is an index that the credit resources are overdrawn; that the supply of floating capital has already been absorbed, and that the time has come to proceed more slowly.

The suggestion has been made here, I believe, that any loan made upon good security was a safe and proper loan. That is true in a sense, but the number of such loans you can make and the aggregate amount of such loans is necessarily regulated by the supply of capital which people have to lend. There are perfectly good loans which can be made if the supply of credit and capital is available, but you are governed by the limitations of the supply of free capital, and you are governed by the index which the gold reserve affords of the quantity of free capital. Currency, of course, is only one form of the expression of the whole fund of transferable capital. "Bank deposits" are another form—a much larger and more elactic form.

Senator NELSON. What do you call "bank deposits"? Do you call them capital?

Mr. CONANT. Not necessarily. There are, of course, different classes of bank deposits. If a man brings in currency to be deposited to his credit, that is different from obtaining a loan and having the proceeds transferred to his deposit account.

The CHAIRMAN. I must remind the committee that we have agreed not to interrupt the witness.

Senator NELSON. All right.

Senator SHAFROTH. He requested that we not interrupt him.

Mr. CONANT. That is quite a pertinent question, however. Deposits in this country are lumped without regard to their origin or character. In Europe they are classified according to their character. If a man brings in money and deposits it to his own account, that is what they call a deposit, and that is capital. If, however, he comes to a bank and gets a loan and it is transferred to his deposit account, it stands in a different relation and in most European countries the balance sheets state it differently. It is stated as a current creditor account of the bank and not as a "deposit."

It is, of course, difficult to go into all the ramifications and relations between capital and currency, and I only wanted to call attention to the point that the amount of new loans is limited by the supply of capital available for such loans and then illustrate that in another way a little farther along. So that until the supply of capital in the world is unrestricted, the supply of loans based upon good collateral must remain restricted. The great danger of making loans on what appears to be good collateral is the overextension of credit and the expansion of enterprise which ultimately would not prove to be required. That is a characteristic of most crises, that men have found money easy, easy to borrow at the banks. They put it into new enterprises which ultimately have not proved to be required. They may seem at the moment to be required, as, for instance, a shoe manufacturer having a big demand for shoes might feel justified in extending his plant. If the banks consider the risk good, they provide the money and all the other shoe manufacturers may begin to extend their plants. Then the banks suddenly discover that the shoe business is overdone; they begin to call their loans, and the manufacturer having borrowed the money upon a fixed investment of that character—a new building, instead of having borrowed it to produce more shoes—for shoe leather, for the payment of wages,

for instance, from which he could get money in 90 days or thereabouts, this shoe manufacturer is in difficulties and he is unable to pay his loan, and general business confidence is impaired and depression sets in.

So that the currency system and the banking system are merely the expressions of this demand for capital and it is their business to regulate it in a sense. It is their business to exercise foresight and judgment and discretion in such a way that they will not permit capital to be locked up too extensively in fixed forms. When I say "fixed forms," I come to another phase of the matter which has been a good deal discussed by witnesses here—the question of whether mortgages are good security for current loans by banks. And I say most emphatically they are not; that so far from being the best security they come pretty near to being the worst, not because the property upon which they are obtained is not good, but because it is not readily convertible.

The business of banks is of many types, and the type we are dealing with here in currency legislation is the type which is quickly convertible. A commercial bank is founded to receive deposits payable on demand. Any institution which is paying deposits on demand must have its money practically where it can obtain it on demand. There is no use saying to a man who goes into a bank and wants to draw $1,000 from his account, and you have not the gold, that you can give him a share of a good mortgage. He says, "That is not what I want; I have got to pay my bills around town here, and I want to have cash." To illustrate the point of difference between the fixed investment of that character, which is perfectly legitimate in its way, but not related to commercial banking, let us say each of us gentlemen agreed to put $10,000 into a land syndicate to buy some lots adjoining Washington, if it were permissible for Members of Congress to do that.

Senator O'Gorman. Not in these days.

Senator Shafroth. It used to be.

Mr. Conant. We each put in $10,000 and we have $100,000 to buy our land, and we begin to make improvements, and one of us comes in and says, "I believe I would like to take my $10,000 out. I may want to put it in again by and by, but I would like to use it now." He comes to the chairman and wants that money. Where is the chairman to find that $10,000 he has disbursed for land; or, if he has not disbursed for land, that he is paying out to laborers and for material for the improvement of that land?

Of course, steps have been taken to give more liquidity to fixed investments such as Mr. Wade, of St. Louis, explained, by dividing them into negotiable receipts. That is one step toward the liquefaction of capital. Even in the case of shares in corporations, however, like the steel stock and stock in the Union Pacific Railway, it is really capital in fixed form, because the money has been taken by the steel company and the railway and put into its plant, into its equipment. Of course, it is competent for a corporation, like any other borrower, to go to a bank and borrow on short term for the purpose of current expenses of production, but when it issues stock and bonds it does it usually to put into fixed form, into buildings and equipment and machinery. After you have done that—while it is there it is not so readily transferable. Moreover, the amount of

such securities is rigid. It is irreducible; and they lack, therefore, the elasticity which pertains to commercial paper. When business slackens up the amount of commercial paper contracts of itself. The man who is selling shoes finds that the demand for shoes is less and he buys less leather and therefore he gives fewer notes for leather; he employs fewer laborers and therefore borrows less from the bank, and is able to pay his commercial paper off from time to time.

The amount of demand for capital of this sort changes with the volume of business. But with the man whose securities are stocks and bonds the only elasticity about them is the rise and fall of prices on the stock exchange. Leaving out, of course, new creations, the quantity of stocks and bonds at par value remains rigid. There is no contraction of business except by bankruptcy or except from the fall of prices on the stock exchange. There is little elasticity in that form of capital. It is a hard lesson which bankers have had to learn, that loans on negotiable securities are subject to ready convertibility in times of expansion, but they are unsafe in times when commercial credit is contracted or when the supply of capital is reduced.

Senator NELSON. I am glad to hear you say so. That is the view I have had.

Mr. CONANT. For that reason it is not wise to base the issue of currency even on negotiable securities, much less on those forms which are not readily reducible and negotiable. Now, every country has been through this experience. They have all tried to base the issue of currency on securities. Belgium, in the middle of the last century, when this question was not so thoroughly understood as now, had several big stock banks. They started in swimmingly, financed all sorts of industries, and gave them the capital to operate; but after a time, when the supply of capital was exhausted, when the depositors began to clamor for their money at these banks, the banks had no money. They said, "Why, we have some elegant securities here. Here is a security in an iron mill, or in a cotton mill, but we have not any money, because it is all locked up in fixed forms and we can not collect from these people. We can sell the mortgages, but we must sell on a breaking market, because it is difficult to sell securities in a tight money market." That investment is fixed and rigid and irreducible, except by bankruptcy, and the only elasticity you inject into it is by the fall of prices on the stock exchange.

Therefore, economists and bankers have come to the conclusion, which is embodied in the underlying principles of this bill, that currency redeemable on demand must be secured by assets that are practically convertible on demand. That is the principle of a currency based on commercial paper which runs for not exceeding 60 or 90 days, and of which the bank, of course, always has a considerable percentage maturing every day. If they have a lot of commercial paper maturing in 90 days, some of it is maturing all along through the 90 days and new paper is coming in. On the average, if commercial paper is 90-day paper, one-ninetieth is maturing every day, and if it is 60-day paper, one-sixtieth is maturing every day.

Now, with that paper in his possession and the capacity for rediscount any banker having good assets would have no difficulty where

the rediscount system exists; and, as the chairman has several times pointed out, the underlying principle of this bill is to accord a rediscount market, where people with convertible assets and sound assets can get accommodation, and where, under the terms of the bill, loans on fixed collateral are excluded. The principles of the bill are perfectly sound and the only sound principles upon which currency can be based.

Speaking of issuing notes which are redeemable when some other property has been realized upon recalls a decision of one of the Italian courts when specie payments were suspended in Italy. The court decided that the promise to pay at a particular time in the future was practically as good as current payment, on which an Italian economist remarked that the promise of a dinner day after to-morrow was hardly as advantageous to a hungry man as being given a dinner to-day.

Now, in regard to the question of supervision, some degree of control exercised by the reserve associations, as I have pointed out briefly, is a necessary part of the system. It may not be apparent to the small banker in the country, immersed in his daily business, that at a particular moment such supervision is required, but the necessity for a very strong institution of that sort lies in the need for protection of the gold stock of the country. As I have already indicated, that gold stock is a barometer of business conditions and of the demand for capital. Unless some mechanism—a banking organism of power and efficiency—exists, we will be as helpless as we were in 1894 and 1895, when gold was flowing out of the country persistently and we had absolutely no means of protecting that gold stock or of diminishing the expansion or contracting the volume of currency except to sell long-term bonds. Had the Treasury possessed the power to raise the discount rate on loans, the power to borrow on short-term notes, and various other banking devices, they could have done something to check that outflow. A suggestion has been made here looking to the Treasury doing these things. I regard that as undesirable, because these devices are only a part of the complete mechanism which a well-organized series of central institutions can put into operation. The more you add to the resources which the Treasury has for this purpose, the nearer you get to a complete bank organization. The Treasury, of course, is not at present, and could not very well be, a lender on commercial paper. It is not a lender on commercial paper and has no quick assets. The amount which it receives over the counter from taxation is required from day to day for current obligations, and therefore it really has no quick assets available for banking purposes. It has no power to raise the discount rate in the money market, because it does not make loans; it has no power to do anything in these matters except in a clumsy, roundabout way. Now, if you see fit to endow the Treasury with all these powers, you will practically create a bank. It may be owned by the United States, or the stock may be locked up in the Treasury, or you can have no stock, but it makes the Government practically a banker. If you give only a few powers to the Treasury and leave the rest to the banks, then you have a divided and doubtful authority; while if you give all powers to a Government bank, it must either be a bank in fact, governed by competent business men or bankers, or

must perform its functions in a manner clumsy, roundabout, uneconomical, and ineffective.

I am not speaking now in criticism of the provisions of this bill in regard to the Federal reserve board. I will say something about that later. I am merely trying to illustrate the principle that you must either have a bank to do these things or you can not do them at all. If you try to endow the Treasury with a few of these powers you will impair the efficiency of the banks, and you can not endow the Treasury with adequate powers unless you establish practically what is a bank in the Treasury.

Now, one reason why (and there are very many) it is not advisable for you to endow the Treasury with these powers is that the control of exchanges has become in modern times—in very recent times—a very complicated system. It was said by one witness, as to the making of prices, that if money flows out prices will go down and money will be attracted back again. That theory, while beautiful in principle, is controlled by other methods in influencing the money market to-day. It is the very last step in the influences exerted over the money market. To-day the money market is influenced principally by the movement of securities. If the money rate is high in New York, people will part with their securities or they can borrow on securities in London. There is a constant movement, as every one knows who reads the financial columns—the sale and arbitrage of securities between one market and another. Arbitrage represents the effort of shrewd, quick bankers and brokers to sell in one market at a high price and buy in another at a lower price. They have reduced it to the finest calculations, and it would be utterly impossible for any Treasury official to enter upon these calculations or to enter the market unless he was cut off from the Treasury entirely and its limitations and told to go ahead and be a banker. Even then there would be a lot of things that he would do with the very best of purposes which would be the subject of criticism. The exchange men in New York banks often make grave mistakes, which cause the bank losses of tens of thousands of dollars, in conducting this work. What would they say of an official of the Treasury who should try to conduct such transactions between London, Berlin, and New York and should lose $25,000 in a trade? He would be so oppressed by fear of such an occurrence that he would be absolutely paralyzed from doing any such thing. He could not do it with the money raised by taxation and in the capacity of a Government official. He would be liable to instant removal and would be in a constant state of fear.

Senator Shafroth. Fear of impeachment?

Mr. Conant. Yes; I think so. Therefore the vast complication of the modern banking medium makes it essentially a form of business that is done through banks. It is through that medium that the money market is controlled. It is not immediately through the operation on commodities of the Ricardian theory that when prices are high gold flows out, and prices fall in consequence, and that as soon as the prices have fallen gold will flow back, because the prices are low enough. Of course that principle is sound, but I would say it is almost a negligible factor. It may be in operation under the surface, but it is a negligible factor to the ordinary banker, because he

studies the rates for money and the demands for credit and the movement of securities. Of course, the principle comes into operation in this way, that if a banker finds that money is tight he has to take certain measures—he necessarily has to diminsh his loans, and that reacts upon the the man who has borrowed from him especially if that man has spread out too fast and is trying to increase his business beyond the capital resources of the country. As the influence extends down from the banker to the manufacturer and to the consumer, it reaches through an indefinite gradation of factors which it would be impossible for any Treasury official to undertake to borrow or to anticipate.

That brings me to rather an interesting point, and one which I think is not generally understood, which relates to the proposal here to issue Government notes. As I shall say farther on, I regard the question as largely academic, whether the notes are issued as Government notes, as provided by this bill, or whether they are strictly bank notes. My personal preference would be that they should be bank notes. But in my opinion it is largerly an academic question. But as bearing upon the argument adduced for Government notes I would like to ask your attention to this point. It is commonly said, I think, that the Government should control the issue of money; that it should and does control the issue of gold coin, and that therefore it should control the issue of credit money.

If you will consider the matter a moment you will see that the Government does not control the issue of gold coin. The Government, under the system of free coinage, never goes into the market and bids for gold. The banks do that in Europe, because it is their business to protect the gold stock for that reason and for other reasons. The Government of the United States never goes into the market hunting for gold. Neither does it say that it will not coin any more gold. The determination how much gold coin there shall be is made by miners and gold importers who take their gold to the mint to be coined. Why does the Government intervene at all? Simply to put the stamp of safety and convenience on its coins. Why should not the same principle be applied to the issue of credit money? The Government should impose every condition to secure uniformity, regularity, convenience, and safety, but it is not its function to attempt to regulate the quantity. I am willing to put the two propositions on all fours, that the Government should exercise over the credit currency the same character of supervision which is exercised over the gold currency. As to quantity, it does not exercise such authority at all. It simply sets up certain reasonable safeguards for the security and convenience of the public. The Treasury does not say that a certain amount of gold money is enough.

The control of the quantity of money is broadly in the hands of the business community; it is so under free coinage of gold wherever that system prevails, and it is my opinion, theoretically, barring qualifications, the issue of credit currency should be under the same sort of regulation to insure its uniformity, convenience, and safety, and not to attempt to regulate its quantity. The regulation of the quantity should be through the banks in the way I have already explained, because it is their business to look ahead and curtail loans if they believe that loans have proceeded to a point which is exceeding the

supply of available capital and may reduce the gold stock of the country and curtail its liquid resources.

I do not want to proceed at too great length in a discussion of these purely abstract questions, most of which are understood in the main, but sometimes they may be taken up from different points of view, or from a point on which some illumination may be shed by individual investigation.

I think, perhaps, I would be willing to submit to questions on those subjects now, if the committee desires to ask any at this time. Regarding the details of the bill, I propose to speak about them afterwards, if that is the pleasure of the committee.

Senator NELSON. You speak of capital and seem to tie the currency to the amount of capital in the country.

Mr. CONANT. No; I do not intend to tie currency to the amount of capital, but only to the particular capital which is not invested in fixed forms.

Senator NELSON. What distinction do you make between capital and credits?

Mr. CONANT. There is a great distinction.

Senator NELSON. What has a bank got outside of its capital and surplus, except its credits, which it derives through individual depositors?

Mr. CONANT. It has no other resources except the power to issue currency and to obtain rediscounts.

Senator NELSON. Is not the capital of the banks of a fixed quality; that is, a bank is organized with such and such capital, and that is a fixed thing. They may swell it indirectly by laying aside a surplus.

Mr. CONANT. It depends upon what the capital is invested in. As a matter of fact, the average bank does have part of its capital in fixed form. Under the present law, requiring the deposits of United States bonds, a very large percentage of the capital is in such bonds.

Senator NELSON (interposing). Where does the increase of capital come in?

Mr. CONANT. From production, primarily.

Senator NELSON. Certainly it comes from production, from what the farmer and the manufacturers produce?

Mr. CONANT. Yes.

Senator NELSON. And practically, the bankers are nothing but middlemen?

Mr. CONANT. Yes; that is correct.

Senator NELSON. The only ones who bring capital into the country are the manufacturers and the farmers?

Mr. CONANT. That is, physical capital. Of course, we have all sorts of intellectual pursuits, like the profession of the lawyer and the doctor, but physical capital is only the result of physical production.

There is one point, before leaving the purely theoretical aspect of the question, that I would like to elucidate, and that is in regard to some questions that were asked, I think, of Mr. Claflin as to whether commercial paper was always as liquid as some witnesses here claimed that it is. Now, it may be true, and unfortunately I think it is true in many American banks, that not all of the paper held is liquid—that it does have to be renewed, and the bank does not expect it to

be repaid; but there is this element of safety, that there is a marginal supply of paper that is liquid.

First, there is the paper of many solvent merchants, who can and do pay the paper at maturity, and pay it from their earnings, and it is the custom of some banking institutions—I can not say how many—to require their commercial clients to clear up their slate once a year, at the time when their profits have accumulated to the largest extent, probably after Christmas, in the case of retail merchants. Of course, I do not say there are not ways of evading that by going to some other bank and borrowing temporarily, but to show the relative liquidity of the resources and the soundness of their clients they do require them to pay up.

Irrespective of that point, however, this element remains, that even though you may have a substratum of paper which is not readily convertible to meet a demand for the payment of a great many outstanding notes you have a margin which is convertible. If you choose, you can say to your better class of clients who apply for renewal, "I will renew for 75 per cent of your loan." The result is that the bank is able to convert at least a part of its assets into cash and to meet the pressure of large withdrawals of deposits, if they occur, or to swell its metallic reserves if it has demands for loans.

That clears up a point which I think was not entirely cleared up by previous witnesses who were asked as to the character of American bank paper. It ought to be more liquid than it is, but there is no serious risk if we have a marginal supply which is liquid, and if we have a method by which the banks can rediscount that marginal supply as a means of accommodating their depositors.

Senator NELSON. I rather got the impression, and perhaps it was my mistake, that you would measure the currency by what you call the capital of the country and by the gold supply. How is that?

Mr. CONANT. No; I think that is not quite a correct definition of my view.

Senator NELSON. You measure it by the gold supply; it ought to be governed by that?

Mr. CONANT. I measure the demand for currency by the gold supply in the sense that the amount of currency which should be issued is governed by reserve requirements.

Senator NELSON. Others have sought to measure it by the volume of what they called the best kind of commercial paper. They would measure it by that, and as I understand it you measure it by the amount of gold reserve. Is that your theory?

Mr. CONANT. Perhaps, in a way. I do not know whether you were here when I was discussing——

Senator NELSON (interposing). I missed the first 15 minutes.

Mr. CONANT. I think I covered that point. My contention was that gold is rather a barometer of the supply of free capital available for loans. You can not go on making loans indefinitely unless you have the free capital. In other words, the contention which was made by certain English bankers during the suspension of payments in England, that it was perfectly safe to issue notes so long as you had good commercial paper behind them. That contention is not sound, because that implies unlimited resources of capital. You can discount good paper as long as you have capital enough, but you are limited by the capital, which is the product of the producing

power of the country, and you can not go any further, except on the narrow margin established by borrowing from the public through the issue of bank notes.

Senator NELSON. In other words, your theory is there must be capital of some kind back of the note issue?

Mr. CONANT. Absolutely.

Senator NELSON. That it will not do to regulate it wholly by the volume of commercial paper?

Mr. CONANT. No; not wholly.

Senator SHAFROTH. Mr. Conant, I will ask you whether, in your judgment, there is too much money in existence now in the United States?

Mr. CONANT. Whether there is too much money?

Senator SHAFROTH. Whether or not there is too much money in existence now?

Mr. CONANT. That is a difficult question to answer, because the supply of money usually adjusts itself to the demand. I might say we have too much money, because prices have risen so rapidly. We could have gotten along with less money with a lower scale of prices.

Senator SHAFROTH. Do you recognize that these prices are world prices?

Mr. CONANT. Oh, yes; it is a world problem. We could not very well tie ourselves to a different basis from that of other nations, so long as we are on a world standard.

Senator SHAFROTH. The amount of money which is in any one country is not a determining factor on prices, either falling or rising, is it?

Mr. CONANT. No; not necessarily. Of course, those factors all play into each other.

Senator SHAFROTH. Prof. Sprague said that in his judgment there was not too much money, but that the money which was in existence now in the United States might be considered a fixed amount which he would regard would be needed at all times in the future. Do you agree with that or not?

Mr. CONANT. Not quite. I agree with a part of it. So far as it relates to your bill, I am going to say some commendatory words about that later.

Senator SHAFROTH. That is what I am trying to get at, as to whether or not the provisions which have been made in the bill, one of which has been introduced by myself and one by Senator Owen, with relation to the issuance of a Treasury note secured by a 50 per cent gold reserve, with power given to the Secretary of the Treasury to maintain the gold reserve at all hazards; whether or not it could be taken as a safe fact that the amount which is authorized to be issued by that bill, namely, the present United States note and the national-bank note, could be considered as fixed currency?

Mr. CONANT. No; I should say not quite. I think the Professor was a little sanguine in intimating that the whole volume of currency was an irreducible minimum. In case of business depression there would be a considerable contraction, probably, and the contraction would take effect through the exportation of gold. I am not opposing the bill per se, but in answer to the question whether the present amount is an irreducible minimum, I would say not neces-

sarily. There might be contraction drawn to even 90 per cent, but there must be some means of protecting the margin.

Senator SHAFROTH. The theory of that measure would be to have the present currency fixed, as it were, as much as United States notes issued could make it fixed, and that then the operations of this bill would apply to the increase or decrease of currency issued upon such assets as the bill refers to, and that therefore the elasticity part of the bill could be performed, and yet not interfere with the currency which we have now required and have required for years, as a fixed currency.

Mr. CONANT. But it has not been fixed for years. It has been generally increasing from year to year, but the time may come when it may go down again.

Senator O'GORMAN. How will it go down?

Mr. CONANT. Through the exportation of gold, which would be the result obtained by presenting those certificates for redemption. That happened from 1893 to 1896. In other words, I should say you could not take the top limit at a given moment and say that it is an irreducible minimum. There are other ways of accomplishing what you want.

But I would prefer to take this up later.

Senator BRISTOW. You spoke of the protection of the gold stock of the country. I do not think I quite clearly get your idea as to how you proposed to do that.

Mr. CONANT. Well, of course, it is done in Europe through the banks of issue. They raise the discount rate. That is the primary and classical step for protecting the gold stock. Raising discount rates not only discourages borrowers from coming to get unnecessary loans, or loans for further expansion, but in practice, where acceptances prevail and where all kinds of paper is dealt with in the international markets, it affects the situation in a great variety of ways.

Say the Bank of England has had a discount rate of 4 per cent and it raised it to 5 per cent, and the discount rate in Paris is 4 per cent. The result is that if anyone in London has a debt to pay in France, instead of shipping gold from England to pay that bill, he will probably receive word from his creditors to keep the money for the present and pay him 5 per cent interest. What would more likely happen would be that the French creditor would direct the deposit of that money with a local bank in London, and the outflow of that particular bit of gold would be checked for the present. Then if there is an excess of gold in Paris in the hands of the joint stock and private bankers, they will send it to London, and in that way you will see the reserve of the Bank of England begin to rise because they have raised the discount rate. This is one way of protecting the gold reserve. There are a whole lot of other ways under the modern mechanism of business.

Senator BRISTOW. I had a slight idea as to how they did it in Europe, but how are we to protect ours? I thought you indicated how you thought we ought to protect our stock of gold here in this country. I did not quite get your views as to how we ought to do that.

Mr. CONANT. By the methods provided in the Owen-Glass bill. I do not mean to say in every detail, but in the underlying principle

of having some strong institutions which have the power of rediscounts and which can fix the discount rates. The discount rate is fixed in the bill by the Federal reserve board. If that board sees that our gold stock is flowing out they will raise the rate for rediscount. If that is not adequate, they can take the other steps which the European banks take. They can borrow from the market; they can do a great many things, in the discretion of bankers, which will check the outflow of gold by making it more desirable to leave it here than take it out.

Senator BRISTOW. Why could not the Treasury do that by selling short-time bonds?

Mr. CONANT. I think that would be a very clumsy way. The Treasury is not in a position to act in anticipation of unfavorable conditions. The Treasury would be very severely criticized if it started selling short-time bonds because a few bankers said they saw squalls coming. The entire function of the central banks of Europe is to forestall the force of severe blows to credit and not to wait until you are in plein crise, or full panic, as the French say.

I do not think the Treasury could do that with wisdom or discretion or efficiency.

Senator BRISTOW. What condition would start an exportation of gold from the United States?

Mr. CONANT. Well, overexpansion here and demand abroad, You know, in 1892 Austria-Hungary was making determined efforts to establish a gold standard, and Russia was also getting gold at a premium; they went into the market because they had a special object in obtaining it, and there was nobody in the United States to protect our reserve. The banks of Austria-Hungary were taking all the gold they could get and paying a premium for it.

Senator BRISTOW. Why could we not do the same thing?

Mr. CONANT. We can, through the Federal reserve board.

Senator BRISTOW. Why not through the Treasury?

Mr. CONANT. Because I think it would be difficult and clumsy. As I said, you can gradually give to the Treasury one banking function after another, but if you do you will then have a complete Government bank. It will have to make discounts and loans and protect the gold stock. The way in which big banks do that is by raising the discount rate. The Treasury can not do that unless it is loaning money all the time.

Senator BRISTOW. What criticism have you to make in regard to the way the gold reserve was replenished in 1893?

Mr. CONANT. No criticism in particular, Senator, under the laws as they then stood. What else could they do? It was the only thing that could be done under existing law. The Secretary of the Treasury, Mr. Carlisle, recommended to Congress in 1894 the creation of a more flexible banking and currency system, but action was not taken by Congress.

Senator SHAFROTH. The bonds which were issued at that time also serve the purpose of covering a deficit in the Treasury?

Mr. CONANT. Yes; that was one of the difficulties, of course. If you ask for criticisms they are criticisms of conditions rather than of Mr. Cleveland or Mr. Carlisle. There was a large deficit, and the proceeds of the sale of notes were not required to be segregated in

the Treasury. Under the gold-standard act of 1900 it is specifically provided that when bonds are sold to replenish the reserve the proceeds shall be kept in the reserve. When the money was obtained by the sale of bonds in 1894 it was paid out for Government obligation so that the effect was largely lost, while it would not be lost in the same way under the act of 1900.

Senator BRISTOW. I infer that you believe that the best system is the central-bank system?

Mr. CONANT. I should say, theoretically, yes. The end is attained in a measure by these reserve associations. I have heard the criticism made that this country is too big for a central bank; that Europe is nothing but a combination of small States, each with its local bank; but it is a curious circumstance that an expert commission which is now considering conditions in India is preparing to recommend the central bank for the whole of British India, with her vast population.

Senator HITCHCOCK. Are they not recommending a State bank?

Mr. CONANT. That may be. I do not know whether it is owned by the State or not, but it is a central institution.

Senator BRISTOW. What objection is there to a central bank in this country, in your mind?

Mr. CONANT. I do not know that I have any serious objection. I think it is a rather desirable thing, but I think you may obtain the same object by creating a number of centers. The stronger your center, in one respect, the better; and in New York particularly, if the design is to take away some of the power now exercised by the national and other joint-stock banks, you ought to have an institution there that is strong enough to cope with those institutions. You will cut your own throats if you set up in New York a $5,000,000 bank instead of a $25,000,000 or a $50,000,000 bank.

Senator BRISTOW. What would be the objection to the Government establishing a bank?

Mr. CONANT. If the bank were endowed with every power which the ordinary bank has, and the managers were free from political influences, and the bank had functions very much like the other banks some of the objections would be removed; but I think there are very strong objections to putting the Government into the banking business to that extent.

Senator O'GORMAN. What are they?

Mr. CONANT. Political, largely. If the banks in this country were officered by men who were more or less interested in politics, I think you would find them more lenient to a borrower of their own faith than upon strictly business principles. That is one objection.

Senator BRISTOW. You think complete political control would be less desirable than this semipolitical control that is proposed?

Mr. CONANT. Yes; I should think so. It is semipolitical control as the bill now stands, authorizing an advisory council, bringing the two interests, governmental and commercial, into touch with each other, and experience in Europe shows they usually work in harmony. In the Imperial Bank of Germany there is a committee representing the stockholders which has only limited powers and can not vote, I believe, in the councils of the general board, but which confers with the general board, with the governor and the deputy governor, and

the executive committee and with the great German bankers; and very rarely have any differences arisen between the two elements. The question of determining the discount rate, and indeed most financial and commercial questions, are determined by the committee representing the stockholders. The officers representing the Government have greater powers. They could veto and override the action of the stockholders, but they do not find the occasion arising to do it. In this country, with this Federal advisory council, I think you would find that the same degree of harmony would come about by degrees, if not at first, because it would bring the officials representing the Government in contact with the facts.

The most serious criticism of the original bill was that the members of the Federal reserve board would not be in touch with those intimate facts which are known to the banker, which determine whether he will curtail his loans or raise the discount rate, or both, and other things of that sort. When you appoint a committee representing the Federal reserve banks who are in close touch with those affairs, they will put the facts before the members of the Federal reserve board. I am willing to accept the conclusion that the President will appoint men on the Federal reserve board who will endeavor to perform their functions with due regard to the business and financial interests of the country. But they can not do it if——

Senator Bristow (interposing). If an organization could be perfected or a scheme devised whereby this political influence you refer to could be guarded against, what objection would there be to the Government owning a bank?

Mr. Conant. Only the objections which exist against Government ownership of any enterprise—that it is apt to be less responsive to business conditions and less economical and less efficient. You see it in every branch of the public service, do you not?

Senator Bristow. Yes. Suppose that this Government bank did business only with banks; that it discounted their paper and let them have money issued, and that they run the business of the country just as they do now, but when they wanted additional currency secure it from this Federal bank?

Mr. Conant. Well, there you are up against the same proposition I was talking about before, that you must have either complete banking functions and complete freedom to go into the market and do banking acts, or you have a very clumsy and inefficient mechanism. If I understood the first part of your question, you propose to have a complete bank.

Senator Bristow. Yes.

Mr. Conant. Well, I will confine my answer to that. If you had a complete bank and its officers were competent bankers, and authorized to do anything any bank was authorized to do, I think you would still find they would not like to do certain things that a banker would do when he was responsible to his private shareholders, because their acts might be misinterpreted and they might be criticised and made the subject of political attack. A banker, the president of a national bank, a Federal reserve bank, or whatever you please, has to use his best judgment in regard to various things, as, in regard to buying and selling exchange, for instance. There are a number of large banks in New York which have to take certain risks. They may lose in one transaction and make money in another, but do you

believe that a man appointed as a Federal official of a bank owned by the Government would dare take the risk of losing anything in any one transaction? While if he did not take any risks his hands would be tied. When you raise the general question of the propriety of Government ownership of an enterprise you raise a very large question.

Senator NELSON. That is practically State socialism?

Mr. CONANT. It tends in that direction.

Senator BRISTOW. There might be objections to the general banking business, but what objections could there be to a Government bank performing the functions for the individual banks that are to be performed by these regional banks?

Mr. CONANT. The objection would be that if you had a Government bank simply authorized to issue currency upon commercial paper it would not be able to do anything to protect the foreign exchanges; that is, anything worth while.

Senator BRISTOW. The regional banks have not any power to, unless it has been conferred in one House amendment. It was not intended they should go into the open market and buy exchange.

Mr. CONANT. Oh, yes; they have got a number of open-market functions, according to the bill in its present draft.

Senator BRISTOW. To compete—section 15 is the section we are all familiar with.

Mr. CONANT. Section 15, in regard to open-market operations, says:

That any Federal reserve bank may, under rules and regulations prescribed by the Federal reserve board, purchase and sell in the open market, either from or to domestic or foreign banks, firms, corporations, or individuals, prime bankers' bills, and bills of exchange of the kinds and maturities by this act made eligible for rediscount, and cable transfers.

Senator BRISTOW. Of course that is foreign business. It seems to me most of our experts who come here are more interested in the foreign banking business than in our domestic banking business. It is not intended—the power may be conferred, but I do not think it was intended to confer upon the banks authority to go into the banking business in competition with the member banks.

Mr. CONANT. The Federal reserve board will prescribe rules which will not interfere unduly with the other banks in times of peace and tranquillity, but they will exercise those powers in times of business disturbance or threats against the gold reserve. If they are not going to do it, I do not see the use of having any such institutions.

Senator BRISTOW. If we had a Federal bank authorized to perform the functions that this reserve bank does in the discounting of paper, and let the stock of this Federal bank be owned by the public, banks could subscribe for it.

Mr. CONANT. "Owned by the public;" by that you mean private citizens?

Senator BRISTOW. Yes; permit subscriptions by private citizens or banks. Then the complaint could not be made that the bank was controlled by some selfish interest, to the detriment of other competing interests.

Mr. CONANT. Is that not what you are seeking to accomplish by this bill?

Senator BRISTOW. It will not accomplish it.

Mr. CONANT. I do not understand that your question involves now anything more than Government supervision.

Senator BRISTOW. It is a Government bank; it is absolutely run by the Government, and the Government sells the stock.

Mr. CONANT. To the public?

Senator BRISTOW. To the public.

Mr. CONANT. But the Government does not retain ownership?

Senator BRISTOW. Not of the stock. It retains control.

Mr. CONANT. It appoints all officers; in other words——

Senator BRISTOW. Yes. Now, why could not it perform all the functions of regional banks, and not disturb the present banking system so far as the banks are concerned?

Mr. CONANT. For the reasons that I have already referred to in relation to the exercise of these banking powers. If the Government bank, as you would call it, privately owned but officered by the Government, was limited in its powers to issuing currency——

Senator BRISTOW (interposing). And discounting papers for banks?

Mr. CONANT. Yes; rediscounting; to issuing currency and even selling Government bonds, I say it would not possess the requisite powers to protect the gold stock of the country, and it would exercise its powers in a very clumsy way.

Senator BRISTOW. Why could it not protect the gold stock?

Mr. CONANT. It could do it by selling Government bonds—as Mr. Cleveland did—in a very costly way, but it could not do it efficiently. I do not believe the manager of such a bank—if you look upon him as a Government official purely, and not as an active banker—I do not believe he would dare sell Government bonds and subject this country to a permanent bonded debt simply because he believed, and was thoroughly satisfied it ought to be done to avert an impending pressure upon the gold reserve. He might do it after the pressure had occurred, but he would not dare do it in anticipation. If he did, resolutions would come into both Houses of Congress demanding a full explanation of his acts.

Senator BRISTOW. You spoke of farmers' loans being the least desirable.

Senator O'GORMAN. The least liquid.

Mr. CONANT. For a commercial bank. I did not mean to throw any discredit upon them as investments.

Senator BRISTOW. Now, the purpose of this security is to protect the Government which stands behind the currency that is to be issued. Your theory is that it must be therefore an obligation that pays itself up in a very short time?

Mr. CONANT. That is correct.

Senator BRISTOW. Why could not a security be used to protect the Government and let the banker handle his liquid paper and pay out the debt without the Government bothering with the short-time paper?

Mr. CONANT. I do not quite get your idea.

Senator BRISTOW. Say a national bank had $400,000 in assets and $100,000 of it was in securities, farm loans, municipal or Government bonds, and they wanted temporarily $50,000 of currency. Why could it not take some of these investment securities and put up with the Government, as it does now, a Government bond and get that currency?

Mr. Conant. Why should it not? Simply because I think our experience has shown that it is not a convenient and economical and efficient system of getting proper expansion when it is required. The bank has to own the securities, and it gets them back when the currency is retired, and experience has shown that a bank does not like to carry securities for that purpose.

Senator Bristow. Well, we do not allow the banks to hold farm mortgages.

Mr. Conant. Are you questioning the point as to whether the holding of mortgages would be a good thing?

Senator Bristow. Yes.

Mr. Conant. Well, my answer to that would be the same as my original criticism, that they are not readily convertible, and, furthermore, the quantity of currency required in the country is not commensurate with the quantity of wealth in the country. Currency, in a sense, is only a tool, and if you permitted every man who had securities to go up to the Treasury and get notes, we would simply be swamped with paper. The amount of securities extant in this country to-day is about $87,000,000,000. Our circulation is $3,000,000,000. We would be wallowing in a mass of paper if every man could convert his securities into money; that would surpass the conditions in the French Revolution.

Senator Bristow. Would it amount to any more it it were one kind than another? Suppose he had $400,000 deposits in a country bank. You think that ought to be all short-time paper; that is, notes?

Mr. Conant. The larger proportion; yes.

Senator Bristow. That is because it matures rapidly and collections can be made more rapidly?

Mr. Conant. Yes, sir.

Senator Bristow. Of course, you do not anticipate that that bank will ever want $400,000 in currency?

Mr. Conant. No; I would say not.

Senator Bristow. It would not probably ask for more than $100,000 in currency, would it? That would be the maximum?

Mr. Conant. Yes.

Senator Bristow. That is an expansion of 25 per cent. Now, instead of having this $400,000 of short-time paper, suppose it had $100,000 farm mortgages bearing 4½ to 6 per cent.

Mr. Conant. Of course, a very limited proportion carried in its assets is provided for in this bill; and, while I do not like the principle——

Senator Bristow (interposing). Of course, those short-time farm mortgages are not worth anything.

Mr. Conant. You would favor a long-term mortgage?

Senator Bristow. I should say five years. If that bank had $100.000 of five-year mortgages, bearing a good rate of interest, that could be used at any time, with the Government as security for additional currency, and you could take the remaining $300,000 and let that be used in your commercial business, why could not the Government receive those farm mortgages as the security and let the collections be made and the currency borrowed by the processes that would result in its retirement under the system that is suggested?

Mr. CONANT. My reply to that is that the quantity of money loaned on mortgages has no relation to the need for currency in the country, and the deposit of mortgages is like the deposit of anything else, like the deposit of any other long-time obligation, which does not in itself indicate that there is any demand for currency. If that bank has convertible assets, it should deposit those, because they contract and expand automatically. That is our present trouble, that the deposit of United States bonds has no relation to the demand for currency in the country. Sometimes the quantity of bonds meets the demand, and sometimes it is less, the quantity of bonds remaining rigid and the demand for currency changing. There is no more reason why a man should go up and deposit mortgages than why he should deposit a horse—in fact, not as much.

Senator BRISTOW. Do you think a horse can be sold more readily than the mortgage on a good farm?

Mr. CONANT. I would not say you could not sell the mortgage as quickly as the horse, possibly, but I would say that the horse usually is more quickly convertible on the whole. There is no discredit cast on mortgages in this theory, but they are not a good security for currency. They are a splendid thing for a man who wants to put his capital into something where he is going to get a steady return; but when he puts his capital in it, that does not mean that amount of currency is locked up. The man takes that to the bank and the bank debits his deposit account. The main effect it would have would be that the bank would be able to reduce its reserve a few dollars. In other words, mortgages have no relation to currency. They are good investments——

Senator REED (interposing). What does have a relation to currency?

Mr. CONANT. Why, the current movement of trade.

Senator REED. That is about 20 times the amount of currency we need, is it not?

Mr. CONANT. Yes.

Senator REED. Then it has a very loose and peculiar relation. You can not measure the amount of currency by it.

Mr. CONANT. You can measure it in this way; by the measure of demand and supply. You have a certain volume of transactions settled by checks, but you find that for certain purposes people demand currency. The determination of the amount necessary under a sound system is almost automatic. If you are running a farm and you have wages to pay you probably go to the bank and ask for a certain amount of currency; but it does not mean you have to have an amount of currency representing the whole value of your farm or the whole value of your operations.

Senator BRISTOW. Now, the United States 2 per cent bonds sold at a premium?

Mr. CONANT. Yes; they have sold at a premium.

Senator BRISTOW. Why did they sell at a premium?

Mr. CONANT. Because there was a mandatory law compelling banks to buy them if they wanted more circulation.

Senator BRISTOW. Now, the circulating privilege made the 2 per cent bonds sell at a premium, did it not?

Mr. CONANT. Yes.

Senator BRISTOW. The circulating privilege then lends to the desirability of a security?

Mr. CONANT. Where the quantity of the security is limited. Of course, if the United States should put out several times as many bonds we should have such a lot of paper it would not make any difference. The quantity happens to have been limited, roughly, to the business needs of the country.

Senator BRISTOW. But if a national bank were permitted to invest a part of its deposits in farm mortgages and those farm mortgages could be used as a basis for an asset currency, when a demand existed for such currency it would make such loans desirable to the banks, would it not?

Mr. CONANT. It would make the mortgages more desirable?

Senator BRISTOW. Yes.

Mr. CONANT. It might have that tendency if they followed it up. I doubt if many of them, under existing conditions and banking opinion, would try to obtain currency on mortgages. I think they would lose caste with their reserve correspondents if they did.

Senator BRISTOW. The paper of John Wanamaker that floats around the country a good deal, or the paper of any concern of that kind, is regarded as commercial paper that can be used as the basis for this currency. That makes loans of that character more desirable than they would be if it could not be used as such a basis, does it not?

Mr. CONANT. It may have a very slight tendency in that direction, but there is so much commercial paper I should not say that it would have any visible or tangible effect.

Senator BRISTOW. But it gives a desirable character to that kind of loan?

Mr. CONANT. The paper must be prime, or it would not be accepted by the Federal reserve association.

Senator BRISTOW. By "prime" you mean good?

Mr. CONANT. Not only good, but the very best.

Senator BRISTOW. Take the best, then.

Mr. CONANT. I do not see that you are going to add any money value to it. A bank is not going to rediscount that paper above par. Of course, it might have this influence, that the bank would give a slightly lower rate of discount, and that, I understand, is what you seek—to increase the facilities of the country.

Senator BRISTOW. Why should the merchant who is handling goods have legislation that induces a lower rate of interest for him than the farmer who is producing the food supply of the country?

Mr. CONANT. He should not have if the two are upon sound principles, and I understand that the President of the United States proposes to recommend a method of improving farm loans.

Senator BRISTOW. Yes; we hear a good deal about that, but it seems to me the time to do a thing is when you are doing it.

Mr. CONANT. To my mind there is a fundamental distinction between loans on convertible paper, which is elastic in quantity, because it is retired if business slackens, and a rigid security that is convertible only after a long period of years.

Experience shows that. You can go through the banking experience of every country in Europe where they have tried to secure notes on mortgages, and they have all come to grief. Italy came to

grief as recently as 1893. It is not because one class of investment is not as good as another, but because the investments are of different types and must be dealt with differently.

Senator BRISTOW. Senator Nelson asked you about the difference between capital and currency, I believe, and, if I understood him correctly, he said that as he understood it capital was produced by the manufacturer and the farmer and the miner. They produce the resources or the capital of the country.

Mr. CONANT. Yes. I should have added, perhaps, the value of the existing natural resources, but they are not worth much unless improved by human labor.

Senator BRISTOW. Of course. And you spoke of a lawyer or doctor producing capital. I do not understand just what you meant by that.

Mr. CONANT. Of course, they do not produce physical capital, but in our complicated modern society they do their share by enabling other people to produce. The lawyer who shows a man how to organize a corporation that is going to produce shoes cheaper is doing his share in the production of those shoes, just as the manager of a mill, while he does not produce capital——

Senator NELSON (interposing). Especially if he helps the corporation to issue watered stock.

Senator BRISTOW. Still, without discrediting the professions in any way, they are one of the expenses of society.

Mr. CONANT. You may call them in a sense parasitic—but not in an invidious sense.

Senator POMERENE. How would you class Senators?

Senator HOLLIS. I want editors included in that classification.

Mr. CONANT. Everyone, of course, who does not labor with his hands, who is simply applying his mind to the formulation and organization of industry. But they are very essential in the organization of modern society. They do their part; that is certain.

Senator BRISTOW. You spoke of liquid capital, and we are hearing a great deal about liquid capital here. Is it not a matter of fact that this banking system of ours has developed so extensively that it is taking the place of what formerly was the capitalist who loaned his own money and afterwards became a kind of private banker; and that we have developed now the State and national banks and trust companies, and they have become the repositories of the surplus money of the country?

Mr. CONANT. Yes; the money that is awaiting investment and not actually invested. Of course, if a man goes and buys a share of stock and pays for it with a check on his bank he has transferred his capital from the bank into the stock or into the plant.

Senator BRISTOW. And the man who got the money for the stock puts it back in the bank.

Mr. CONANT. He does if the plant is already in full operation; but, if we assume the case that he buys the stock of a new enterprise, the money has to go into the new plant and getting it started. Of course, if you mean that the currency is put back, yes; but currency is only a factor in the many means of transferring capital.

Senator BRISTOW. That is true. Now, the result of this development of the banking system is this: If a man wants to borrow money in his community now, he goes to the bank. I am not a very old man, but I remember when there were men in our community who loaned

money themselves—quite a number of them. They were capitalists. If a man wanted to borrow money, he would go to Sam Smith or John Jones. They do not do that any more. Those men that formerly loaned this money and had surplus capital that they allowed other people to use, they either start the banks, or many of them carry time deposits in the banks, or the banks handle the money for them and sell them their securities that they get. The result is that now when a man wants capital for any purpose he goes to the bank. Now, if you confine that business to this short-time paper you are penalizing the investment of capital in the interest of what you call the commercial paper, are you not?

Mr. CONANT. I should not so interpret it. The bank is only the temporary resting place of capital which is put in a permanent investment. This man you speak of will now presumably put money into securities, but he, as an individual, puts them into securities and he does not need to convert them into currency again——

Senator BRISTOW (interposing). Now, you take a bank statement and you will find a great many time certificates. I happen to have one or two here. Here is a statement of the Planters' State Bank, capital $100,000. I notice here that the individual deposits are $422,000; certificates of deposit, $175,000. Now, those certificates of deposit bear interest.

Speaking of a personal incident, I know a man who carries $50,000 or $60,000—which is a large amount of money for his community—in a bank all the time and the bank pays him 4 per cent on it. He does not bother about it. It saves him the trouble of looking after investments and he thinks the bank is good. Now, this banking system, I find, is drawing into it this surplus capital and this bill proposes to make these bankers use it in the handling of commercial paper, and it is taking from the community to that extent the money that has formerly been used in these permanent investments.

Mr. CONANT. I do not so understand it. I understand that the existing banking system will go on much the same as it does now. Of course, the rediscount banks will deal only in commercial paper, because that is the only way to control the supply of capital on the margin, and it is marginal control they are exercising. When you have money on time deposits a banker would be justified in going a little farther in lending on it than in lending on demand deposits. Of course, you have to have that strictly regulated by law. In New York we have a law penalizing a trust company which pays a man a time deposit before it matures, the object being to compel the bank to keep a reserve against demand deposits which they are not required to keep against time deposits.

Senator BRISTOW. Here is a statement of another bank, a national bank: Individual deposits, subject to check, $475,000; time certificates of deposit, $325,000. That is evidence to my mind that the money of the community is being deposited here in these time certificates, because, while it pays a lower rate of interest, it is in fact making the banker the broker for the loaning of that money and he gets a percentage.

Mr. CONANT. It is deposited at a lower rate of interest because it is more readily convertible.

Senator BRISTOW. No; it is because it is all in one place, and the owner of the money is not bothered about it, and he probably gets

4 per cent, and it is paid promptly, and the trouble of determining whether the loan is a good loan or not he puts on the banker.

Mr. CONANT. I do not understand that there is anything in this bill interfering with that.

Senator BRISTOW. Nothing interfering with it, but the loans that would be made from such deposits as that can not be used, according to your theory, as the basis for currency, and I think it is a wrong theory.

Mr. CONANT. But we never have had the rule that you could lend on mortgages, except the United States bond loans.

Senator McLEAN. Mr. Conant, I assume you intend to discuss the details of this bill later on.

Mr. CONANT. I want to take up a few of the leading features.

Senator McLEAN. You intend to consider the subject of making these notes the obligation of the Government?

Mr. CONANT. Yes.

Senator McLEAN. And how should they be redeemed?

Mr. CONANT. Yes. I am willing to discuss that question now, if you desire.

Senator McLEAN. I do not care to interrupt you if you intend to discuss it later. Has your attention been called to the fact that serious objection to the bill has been raised by those who consider that the three-months' paper will not be obtained in sufficient quantities?

Mr. CONANT. I have heard that objection.

Senator McLEAN. And that there is an existing prejudice against rediscounts on short-time paper?

Mr. CONANT. I have heard those objections; I do not consider them very important.

Senator O'GORMAN. I would suggest this observation: Of course the objection is quite general that the rediscount of paper at the present time is unpopular. It is frequently spoken of as poor banking. The question I have to address to you is this: Is it not likely that it may become popular and lose the prejudice now existing against that practice?

Mr. CONANT. Oh, I think there is no doubt about it.

Senator O'GORMAN. If it be made a feature of this or some other currency legislation?

Mr. CONANT. I think there is no doubt about it. That is the established practice of the big European banks in which the power is very much concentrated. In France there are only a half dozen big joint stock banks, but they rely always in case of need on the Bank of France. They carry very limited cash reserves, and if they anticipate a run or demand for money they simply take their best paper up to the Bank of France——

Senator O'GORMAN (interposing). And doing that would not impair their prestige?

Mr. CONANT. Not a particle.

Senator O'GORMAN. Why does that prejudice exist in this country, then?

Mr. CONANT. I suppose the prejudice in this country exists because a bank has been supposed to be restricted to its own immediate resources, its own deposits and capital. I do not think it is anything

but a prejudice, except to the extent that rediscounting on too broad a scale may tend toward inflation. But I think that when the system is once established it will be availed of. It may not be availed of the first day the banks are opened, but it will come about.

Senator McLEAN. I will not press my question now, Mr. Conant, if you intend to discuss——

Mr. CONANT (interposing). It depends on whether the other Senators desire to ask me any questions on these general considerations.

Senator NELSON. I should like to ask you a little later about the details of the bill.

Senator HITCHCOCK. Mr. Conant, I notice you set a high value upon that feature of the proposed legislation which proposes to vest in the Federal board the right to control the rate of discount, and thus control the gold supply of the country. Is that right?

Mr. CONANT. Yes; but I would rather substitute the word "influence" for "control."

Senator HITCHCOCK. I think you are the only witness that has really taken up that phase of the bill.

Mr. CONANT. I intended to say a little more on that, and perhaps I should do so now.

Senator HITCHCOCK. Before you do that I want to ask you a few questions that occur to me. You speak of the fact that, as it is now, our gold market is likely to be raided by European countries desiring gold.

Mr. CONANT. Yes.

Senator HITCHCOCK. They can come here in a free-gold market and buy gold. Will you tell the committee how they buy it; what they pay for gold when they buy it?

Mr. CONANT. There are various ways of buying it. Of course, it depends upon our condition as well as theirs, but the Austro-Hungarian Bank at the time I spoke of, and the Russian Bank—of course, they probably bought most of their gold directly in London rather than come to New York, but the London bankers would take steps, through raising the discount rate, to replenish their own gold stock. They would go to London and, either through the issue of Government bonds or through the issue of some obligation of the banks, or through borrowing from some London joint-stock bank, they would acquire the credits to buy the gold, and they would pay a fraction of a penny above its market value. There is always buying going on in the London market——

Senator HITCHCOCK (interposing). In what form do they make their payment?

Mr. CONANT. Oh, in credits or checks or cash. Of course, ultimately, I suppose—in the case of Russia, at least, it was necessary to issue Government bonds.

Senator HITCHCOCK. I was speaking of those who bought gold in the United States free market.

Mr. CONANT. Oh, in the United States——

Senator HITCHCOCK. That is the only way our gold supply can be raided.

Mr. CONANT. I can not speak specifically as to the details of the operations, but, as I said, I think the gold was bought primarily in London, but London would replenish her market by raising the discount rate and discounting credits in this country. You know, prior

to 1907 the London banks said they would not discount any more finance bills from New York. A finance bill is simply a loan in a foreign market which gives you the credit and enables you to keep your gold.

Senator HITCHCOCK. Is there any way in which any foreign country can get gold out of the United States except by giving an equivalent for it and a premium in addition to that equivalent?

Mr. CONANT. Whether they give a premium, of course, depends on money-market conditions throughout the world.

Senator HITCHCOCK. So that after all it depends on business conditions whether Europe can get any gold out of the United States?

Mr. CONANT. Yes; in a sense——

Senator HITCHCOCK (interposing). Is not that absolutely so?

Mr. CONANT. Yes; but you do not want your gold undefended. If France or England pursued the policy of just letting matters drift, they would be denuded of their gold, specie suspension would ensue, and they would find themselves in serious trouble.

Senator HITCHCOCK. Let me call your attention to the great difference between France and England and the United States. The United States is a great gold-producing country. We produce nearly a quarter of the gold of the world, and inevitably we must export some of that gold. We can not absorb it all. France produces no gold; England produces no gold; no other European country produces gold.

Mr. CONANT. Except Russia.

Senator HITCHCOCK. And while it may be necessary for them to have a central control of the discount rate to retain their gold or regain it, would the same apply to the United States?

Mr. CONANT. So far as the production of gold is concerned I do not think that cuts any figure at all. The supply of gold will flow where it is needed for bank reserves.

Senator HITCHCOCK. Take the matter of trade. This is a great country which annually exports much more than it imports.

Mr. CONANT. You are arguing to the effect that our general balance will be favorable on the whole?

Senator HITCHCOCK. Yes. In other words, haven't we for generations got along satisfactorily without any protection of this gold supply, dependent wholly on natural business conditions?

Mr. CONANT. No; I do not think we have got along satisfactorily.

Senator HITCHCOCK. Then, let me ask you what the figures of our exports and imports show. It is an actual fact that our export of gold is about $20,000,000 or $30,000,000 a year, is it not?

Mr. CONANT. I presume so.

Senator HITCHCOCK. And we are annually producing about $96,-000,000 a year?

Mr. CONANT. You are taking what period?

Senator HITCHCOCK. Any period you choose.

Mr. CONANT. It make a difference what period you take. If you take the last 15 years since 1897 the showing would be much more favorable.

Senator SHAFROTH. The direct importation of gold since 1878 has been about $5,000,000 a year on an average.

Mr. CONANT. I do not think, as I say, that the question of what amount you produce cuts any figure in deciding where the gold will

find a resting place. Of course, if we are producers we do not have to import, and there might be underlying that investment a cost of one-sixth per cent, or one thirty-second, or something; but the cost of production is not an important factor. If we never produced an ounce of gold in the United States we would probably have the same amount of gold. The import statistics would show larger imports.

Senator HITCHCOCK. Take that horn of the dilemma. We have attained to-day a certain business position in the world. I wish you would point out what experience we have had over any period of years to indicate that we have need of any power to control the discount rate for the purpose of making our gold supply adequate.

Mr. CONANT. I point to the disturbances and panics.

Senator HITCHCOCK. You point to one or two cases in which it has been necessary to resort to extraordinary measures, but England has had those same experiences——

Mr. CONANT (interposing). But through their concentrated banks they have been able to protect the general commercial situation. I understand the purposes of this bill to be to avert those crises.

Senator HITCHCOCK. You say it was the gold supply which produced the crisis in that case?

Mr. CONANT. Not the gold supply, but the absence of adequate reserves and the lack of a central power to call a halt before those reserves were excessively depleted.

Senator HITCHCOCK. But that had nothing to do with the gold supply. Here is a country which has a gold supply of $1,700,000,000. Now, it is hardly conceivable that the salvation of the country shall depend on whether $40,000,000 or $50,000,000 is going to be imported. The crises come from overspeculation and overloaning. That has nothing to do with the gold supply.

Mr. CONANT. I think it has a great deal to do with it. I mean to say this: That, as I said at the beginning, the whole credit situation is involved inevitably in the movement of bank reserves.

Senator HITCHCOCK. Now you are coming to another question. The question of resources is a different matter than gold supply.

Mr. CONANT. If you mean to say we have to-day an adequate gold supply I am quite willing to admit it, and if it were not for our banking laws we could lose $50,000,000 of imports a year and not feel it. But if we have a law that requires banks to suspend making discounts when their reserves fall to a certain point $5,000,000 may turn the scale.

Senator WEEKS. Senator Hitchcock, may I make a suggestion there on that point? I want to ask Mr. Conant if the exportation and importation of gold are not more important as a signal to the business of both countries than is the actual effect of the exportation or importation which may take place, which may be of a very small amount?

Mr. CONANT. Yes; certainly it is an index of business conditions and of the condition of reserves, and a central institution should take note of that before the situation becomes too acute.

Senator HITCHCOCK. I want to call your attention to a statement in which you said that the Government does not control the quantity of gold, and for that reason it should not control the quantity of credit currency. Now, does not this bill provide that Government officials shall control the quantity of credit currency?

Mr. CONANT. Only indirectly.

Senator HITCHCOCK. No; directly. They have the power to refuse to grant credit currency to any reserve bank.

Mr. CONANT. Personally, I should prefer to have that board made up of men representing the shareholders of the banks.

Senator HITCHCOCK. However you make it up it is proposed either in the bill or by your proposition to grant to 7 men or 11 men the power to control the credit currency.

Mr. CONANT. That is in the bill; yes.

Senator HITCHCOCK. You do not approve of that, do you?

Mr. CONANT. Yes; in a sense. The authority to act must be lodged somewhere, but, as I pointed out, these men must not act arbitrarily or wrongfully.

Senator HITCHCOCK. Is it not a fact in France and Germany the amount of credit currency is limited by law?

Mr. CONANT. The limitation in France is of such a character that it is really ineffective. Whenever they see the demand for currency is approaching the limitation they raise the limit.

Senator HITCHCOCK. They raise the limit as the country grows, but the limit remains as a permanency from year to year until it is raised by law. The German Reichstag fixed the limit of currency——

Mr. CONANT (interposing). No; in Germany, of course, you can get out additional notes by paying the tax——

Senator HITCHCOCK (interposing). But even with the taxed notes there is a limit.

Mr. CONANT. What is the limit? There is a limit for the authorized circulation which does not have to be covered except by 33 per cent of gold. Then you can issue gold without limit, and in addition to that you can deposit notes under a tax of 5 per cent without limit. The suggestion that there is a fixed limit is entirely novel to me.

Senator HITCHCOCK. Do you believe that there should be no limit to the quantity of credit currency to be issued, and that that quantity should be left to the say so of a board of control?

Mr. CONANT. Under adequate conditions for a reserve and for taxes on excess issues, yes.

Senator HITCHCOCK. This bill provides that the board of control can say to a bank, "You can have currency," or it can say to the same bank, "You can not have currency," regardless of the reserve.

Mr. CONANT. It provides that the bank must have 33⅓ per cent reserve.

Senator HITCHCOCK. That is true, but the board has the right to refuse currency.

Mr. CONANT. What is the question you ars asking?

Senator HITCHCOCK. I am asking you whether you think we should have in this country a board with the arbitrary power of fixing the limit of the supply of credit currency.

Mr. CONANT. I should say that there should be a power; I shall not say an arbitrary power.

Senator HITCHCOCK. Do you think that there should be an appeal?

Mr. CONANT. No; let me explain. I do not consider that power arbitrary, because it can not be exercised in an arbitrary manner effectively. If, as I pointed out, the governing board of the Bank

of England or the Bank of France fixes a discount rate which is above the market people begin to undermine it. If this board should undertake to refuse to grant currency to meet the needs of the country, it would be an unfortunate situation, but the remedy is always at hand—the importation of gold.

Senator HITCHCOCK. By whom?

Mr. CONANT. By the banks—by anybody; by a citizen.

Senator HITCHCOCK. How would they import their gold? How would they pay for it?

Mr. CONANT. They would pay whatever the current rate was, just as they do now.

Senator HITCHCOCK. They would pay for it only in business credits; they have no other means——

Mr. CONANT (interposing). In business credits and loans.

Senator HITCHCOCK. That is anticipating the future. Whatever they took during one 6 months would be that much detracted from the next 6 months.

Mr. CONANT. Are you assuming that a board would be appointed by the President of the United States that would put this country in that position arbitrarily?

Senator HITCHCOCK. We are not dealing with assumptions; we are dealing with a law that has been framed here; and the question has become very large with me whether any body of men appointed by the President, or anybody else, should be given the power to diminish or increase the volume of currency and thus raise and lower prices.

Mr. CONANT. Of course the raising and lowering of prices will become effective only after some time.

Senator HITCHCOCK. As the currency expands prices will fall, and as the currency contracts prices will rise.

Mr. CONANT. Not immediately.

Senator HITCHCOCK. I wish you would instance a case where the currency has contracted without a corresponding fall in prices. I say contracted; I do not say that it would not actually contract with business. I am speaking of arbitrary contraction. I will take an illustration. Suppose the board of control, which may have the rate of interest fixed at one-half of 1 per cent under this bill, should raise it to 5 or 6 or 7 per cent. What is a man going to do out West who has a large bunch of cattle upon which he has borrowed money? The interest rate goes up and the market is wiped out. Does not that force a fall in prices inevitably?

Mr. CONANT. Not necessarily.

Senator HITCHCOCK. I should like to have you explain how that could be avoided?

Mr. CONANT. You are referring now to a principle of political economy known as the quantity theory of money, and I am not denying that the quantity of money does affect prices in some degree. But there are other things—the state of credit, the state of confidence——

Senator NELSON (interposing). Supply and demand?

Mr. CONANT. Yes.

Senator HITCHCOCK. We are assuming all those things to be equal, Mr. Conant, and just saying that this board arbitrarily raises the rate of interest.

Mr. CONANT. Your first question was as to their absolutely refusing to issue currency, and now you speak of raising the rate of interest.

Senator HITCHCOCK. Take the two of them.

Mr. CONANT. Let us take the matter of raising the rate of interest. If that were done and the rate were above the normal legitimate market, and this board refused to issue currency except at that increased rate, in my opinion it would do no practical harm at all. The business of extending credit to the gentleman you spoke of would be done through the checking system. If, however, the country had reached a point where reserves were down to the minimum and credit had been extended to the very maximum, then their act would have an effect, and in those circumstances that action ought to be taken. If it is taken at a time when there is plenty of free capital, then their act is ineffective.

That is the experience of every European country. I can not quite see how you can assume that they would be able, in the face of the financial opinion of the country, to undertake to do a thing which was obviously unsound. If it is simply on the margin of judgment and their judgment is wrong, the surplus capital in the country will then come to the aid of business. If they persist in their wrong judgment and the credit is contracted unduly, those banks will begin importing gold, and you have increased their loaning power. They are only required to keep an 18 per cent reserve, and you would have five and one-half times the amount of loans, whereas under existing laws they can only get four times. Such a supposition would be found to be unworkable. If they wished to do that their efforts would be offset by the conditions of the market.

It would be an unfortunate thing to do, of course. The mere fact that we had a board that undertook to do wrongful things would be very disturbing, but it would not affect matters materially—a fraction of a per cent in some transactions. But we have the great gold stock of the world to draw on.

(Thereupon, at 1 o,clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

STATEMENT OF CHARLES A. CONANT, OF NEW YORK—Continued.

The CHAIRMAN. We will be glad to have you proceed, Mr. Conant.

Mr. CONANT. In regard to the bill itself I agree with some of the statements made by the chairman on a number of occasions, that it has the merits of providing for a greater centralization of reserves and for greater elasticity in the currency. Those, of course, are the fundamental things, as I understand it, which should be aimed at. I will not say I indorse every detail of the bill as to the carrying out of those purposes, but it is aimed at carrying out those purposes, and its provisions are directed to that end, and I appreciate and approve them.

Now, when it comes to the particulars of the bill, I want to deal principally only with those questions which have appeared to be more or less storm centers. The question of the number of reserve associations, the character of the currency issued, the conditions under

which it is issued, and the question of reserves, the amount and disposition of reserves; those, I think, are the principal questions which have come in issue between the bankers, merchants, and business interests generally and some of the supporters of the bill.

Senator NELSON. They complain of two other matters, the compulsory provision as to joining——

Mr. CONANT (interposing). Yes; I want to say something about that.

Senator NELSON. And the compulsory provision as to requiring one reserve bank to discount the paper of another reserve bank.

Mr. CONANT. I will take up now one of those points you mentioned, because I have very little to say upon it. The power of compulsion upon one reserve bank to rediscount for another, I think, is of very doubtful propriety. As a matter of fact, I do not imagine, whether it is in the law or not, that it will make much difference. The Federal Reserve Association, if it is composed of the right class of men, will cooperate with the directing boards of the Federal reserve banks, and the situation would be unusual which would lead the Federal reserve board, in the manner required in this bill, to direct a Federal reserve bank to rediscount for another bank when the bank so directed was opposed to doing it.

I should say that it will work out about the way the thing is managed in Europe, as between the Government officers of a bank, who are almost all-powerful, technically at least, and the board which represents the stockholders. There is usually a consultation, and in regard to a great many question the initiative is taken by the committee representing the stockholders, so that I do not believe that with that provision left in the bill we shall see a great deal of compulsion. If we did, it would be a very unfortunate situation, and one which would excite a greate deal of distrust in the locality where the bank was situated. I would rather see that eliminated, but I do not believe that, practically, we shall find many difficulties arising under it.

Senator HITCHCOCK. What are you speaking of now?

Mr. CONANT. The provision that the Federal reserve board may compel a Federal reserve bank to rediscount against its will, and that it is compulsory and not a matter of banking comity and cooperation. I think it is an objectionable provision, but I do not believe we would have a board which would make it objectionable, in fact. If we had such a board, it would be a very unfortunate situation. If such a situation could arise, it would be because in some section of the country there had been undue inflation, and a bank in another section, which was ordered to rediscount for the bank in the other section, was not willing to do it and distrusted the character of the paper presented by the bank in the overextended section. It is my opinion that with an intelligent Federal reserve board, the matter would be amicably adjusted, that the word would be given to the bank in the overextended section to curtail its loans, as far as practicable, and that that would be distributed among other Federal reserve banks in a limited way.

Senator REED. May I, without interrupting too much the thread of your discourse, suggest this, that this bill compels the Government to put every dollar of its money in these banks? Further, it commands

the Government to put that money there equitably, whatever that means. Now, do you not think it would be a peculiar thing if the Government could not at least move its own money from one bank to another?

Mr. CONANT. Yes, sir; I think——

Senator REED (interposing). Now, is not this proposition of compulsion really a proposition that covers that question? For instance, I put all my money into your bank. I have the natural right to take it out and put it into Senator Nelson's bank, but by law I am compelled to put half of it in each of your banks. If we pass that sort of law, ought we not also to say that I shall have the right to order you to help Senator Nelson, or Senator Nelson to help you, or else reserve the right to put this money where we please and as we please?

Mr. CONANT. I think the Government should probably, if it had charge of this matter, through any other instrumentality than the reserve board, have power to transfer Federal funds as its sees fit. While that power might be legal, it is a power which inheres naturally in the Government.

Senator NELSON. We would not have that trouble if we had one central reserve bank?

Mr. CONANT. I can not conceive, Senator, that those conditions would become practical. It would be very unfortunate if any such condition should ever arise, and I doubt if it would arise. Theoretically, the right thing to do would be to cancel both of those provisions.

Senator O'GORMAN. As a substitute for "equitably" you would suggest that the reserve board distribute the Government money as in its discretion the board saw fit?

Mr. CONANT. Yes. I am not sure whether the bill places the question of distributing equitably under the reserve board or under the Secretary of the Treasury.

Senator NELSON. The bill excepts the 5 per cent for the redemption of bank notes, but it ought to exempt the $150,000,000 of gold.

Mr. CONANT. I think there are several points connected with that which should probably be readjusted. I believe the bill provides a year for this.

Senator NELSON. Yes; within a year.

Mr. CONANT. There should be some discretion given to the Secretary of the Treasury to proceed with reasonable deliberation about that, because if it is done before the Federal reserve banks are properly organized, it might cause considerable perturbation. I doubt whether there should not be several such funds kept in the Treasury.

In principle, it is desirable that the Government should keep its funds in the banks and check against them, but in a transition I think we should proceed with a little deliberation, or give some discretion to the Federal reserve board, and not be compelled to do a thing which is drastic and revolutionary, so far as our existing system is concerned.

Senator NELSON. Senator O'Gorman, will you allow me to suggest that there ought to be a double discretion—a discretion as to the distribution, and also as to the quantity. Instead of making it mandatory to put in every dollar, it ought to be left discretionary, I think.

Mr. CONANT. There were some questions raised by the Senator from Nebraska before recess that I would like to comment upon further, and they will cover what I have to say in regard to several features of the bill.

I am opposed to the present draft of the bill in compelling national banks to enter the system or dissolving their charters within one year. I think it is not in accordance with the conservatism of Anglo-Saxon laws. I understand it is legal—that the Government has reserved the right to modify or revoke charters. But in Massachusetts, of which State I am a native, and of which State I am prouder at the moment than that in which I now live, the law which authorizes the legislature to modify or annul charters is supposed to be invoked only in case of gross laches on the part of a corporation, or to make some trifling amendment. The proposition that a corporation which has a charter for 20 years, and in which shareholders have invested their capital, believing it would be a good investment, within one year should be compelled to accept provisions which it appears are objectionable to many of them, or be dissolved, I think is drastic and un-American. That does not necessarily imply that the bill can not be carried out with some modifications.

I should say that in the case of these country banks, it was not necessary to make their entrance to the system compulsory. Of course it may be necessary to take away their power of note issue. But so far as the average country bank is concerned, or at least so far as the smaller ones are concerned——

Senator NELSON (interposing). You mean those $25,000 banks?

Mr. CONANT. Yes. I do not see that a country bank would not be just as well off outside the system as within it, because they would get discounts, as they do under the present system, from their correspondents in reserve cities, with whom many of them have established cordial relations. The advantage of this system is that hereafter their correspondents in reserve cities can not say to them in time of pressure, "We are at the end of our resources, and we can not help you any more," because if that should be said the country bankers can say, "Why do you not get some rediscounts from the Federal reserve banks?"

In other words, you can leave the country banker where he is to-day, not obliged to subscribe capital to the Federal reserve boards unless he chooses to, and whether he gets all the advantages of the new system or not, every advantage he does get is added to the advantages he has to-day. Of course if you do that you have to provide the capital of the Federal reserve bank from some other sources. perhaps. If the smaller banks do not see any benefit in getting into the system, why should not that proportion of the capital be sold to the public?

I understand that when the so-called Aldrich bill was framed there was opposition to it on the ground that some money power would get possession of it and control it. If that is a real menace, which I do not think is very serious, it could be guarded against by limiting the holdings of any individual or corporation.

The CHAIRMAN. Limit their voting power?

Mr. CONANT. Yes; one or both.

So that I can see no harm, especially during the transition period, of making the bill less drastic in this respect. The suggestion of

Mr. Claflin was, I believe, to extend the time to three years. It is possible that the advantages of the new system will appear to be such that they will all come in. There is a very strong indisposition at the present time to coming in, and I think that you have received resolutions, or will receive resolutions, from several State associations of national bankers stating that they are opposed to coming in under the present conditions. That feeling may or may not change. If you have a system which will work and which will operate without compelling them to come in by force, I think it will be very much more advantageous.

For the purposes I have in view, as I complained this morning, the control of the foreign exchanges, the protection of the gold stock, and the meeting of crises, it would not be necessary that every little bank should be a member, provided it can reach a bank at the center of financial credit through banks which are members.

This whole bill is largely an experiment. There is nobody who can predict how it is going to work. We can not predict whether the present banks are going to tumble over each other to get into the system or stay out. It would be a very unfortunate experience if three-fourths of them should stay out. Perhaps you can do it, provided that your big institutions in the reserve cities and the central reserve cities shall be brought in by persuasion or perhaps by a certain amount of compulsion, although I do not believe much in compulsion in financial matters. If you have a means of providing banking capital in your reserve centers the system will go along just as well without the smaller banks. If you can sell your capital to private shareholders, with a 5 per cent interest, with a reasonable expectation of making 5 per cent on the investment, I think you would have no difficulty in selling it. Then you would be able to start the system on a sound-going footing, and the question whether these other banks should come in would be left to subsequent developments.

In other words, I think all through the bill there should be a good deal of elasticity in its provisions as well as in providing for an elastic currency; that the Federal reserve board should have a great deal of discretion during the period of transition. There are several points in which the law should be exact after the transition period is over. Among other things is this matter of the reserve against deposits. I am inclined to think if the Federal reserve board proceeded to take in the bigger banks in the reserve cities and to organize reserve banks with adequate capital—five millions, more or less, as may appear desirable—and then if you gave the country banks three years they would be able to find out whether these new institutions were going to be helpful, whether there was a benefit in coming in, or whether they were just as well off in dealing with their old correspondents, letting those correspondents deal exclusively with the Federal reserve banks.

This question of proper paper to discount has been distorted a little, I think. It is not necessary that the country banker should have the particular paper to discount which is required by the bill for the reserve banks, but only to have his paper accepted by his correspondent in the reserve city. The reserve city bank has not got to take that particular paper and rediscount it. It can take the best paper it has. If it is satisfied that the country bank's paper

is good, and as it always has been taken heretofore, it can take that paper and put it in its own vaults, and when it goes to the Federal reserve bank it can take its gilt-edged paper that has been sold by big dealers in its own city and district.

The whole question of rediscount and of the securities to be employed is only one of the marginal supply of credit. You have not got to have every bit of paper payable at maturity, but you have got to have enough to bring in some cash. You have got to have enough that will be paid and that will not be extended, but you have not got to have every bit of it of that character. The more you have of it the better; but the essential thing is the quantity which is on the margin. This determines whether there shall be expansion or contraction, and it enables the bank to contract, if it finds its reserves impaired, and to turn its convertible assets into cash.

In pursuing a policy of this kind, in dividing up the holdings of the stock between the banks and the public, it would be possible to limit the number of reserve associations, it seems to me, as compared to the present bill. Perhaps the first plan is desirable ultimately, but why not start by leaving it so that the Federal reserve board can form a reserve bank in New York, and one in Chicago, and one in St. Louis, and one in Denver, if they are needed? Then, if they later find there is a demand for more reserve banks, if they find that there is capital enough in some of the smaller districts to create such a bank, then let the Federal reserve board go ahead and create more Federal reserve banks. You might provide that they shall immediately proceed to provide for 5 or 6, and that they could, upon application, provide for 12, as this bill provides. It seems to me that with the whole field one of experiment it would be much safer to start in that way and not undertake to cover the whole country in one gulp, because with a capital fixed at $5,000,000, if you stick to the banks themselves, you will find it difficult, if not impossible, to raise it in some of your districts.

Senator Reed. Why do you say it ought to be more than $5,000,000? In some sections of the country very much less might do.

Mr. Conant. It is possible it might do; but in the New York and Chicago districts I think $5,000,000 is very inadequate. There are two banks in New York which alone have capital and surplus funds of $85,000,000. What attention are they going to pay to a Federal reserve bank with $5,000,000 capital under those circumstances? You should have in New York and Chicago, I believe, much more capital than that.

Senator Reed. I call your attention to this fact, and would like to have your view upon it. You take a section of the country that might embrace St. Paul as the center—the commercial center. It has been stated here that in order to get the capital necessary they would have to take in an extent of country 400 miles wide.

Mr. Conant. More than that.

Senator Reed. Six hundred miles wide and 1,400 miles long. Under such circumstances as that, do you not think there ought to be discretion vested in this board, or in somebody, to make the capital less, and thus not be forced to cover so large an area?

Mr. Conant. I should say they would not need a district there at all. I am rather inclined to believe that if you provided for only

four or five or six districts they would serve the permanent needs of the country. Suppose you had, in addition to the existing three central reserve cities, additional centers at New Orleans, Denver, and San Francisco. Geographically that would be a good distribution of them, though not in proportion to the financial interests involved. If those were started, I believe they would prove adequate, because your little country banks in Montana would be able to go to Chicago, necessarily, although in that particular case, perhaps, they would not go there. They would go to Denver, probably, but they would not be compelled to go to Denver. They could go to St. Paul, and St. Paul, although not having a central reserve bank, would have banks strong enough to rediscount very large amounts with the Federal reserve bank in Chicago.

Why not start on a modest basis, and if you find that, say, two and one-half million dollar banks are necessary to support the commerce of those sections and to make the necessary rediscounts, and they can not be provided for just as readily through your smaller number of Federal reserve banks, then provide for them without leaving it for the future. Let the Federal reserve board start by organizing banks in the big centers and see how that turns out.

It is very essential, in my opinion, from the standpoint I referred to this morning, that of foreign exchange, that the New York and Chicago institutions should have a much stronger capital than $5,000,000. The Bank of France has a capital of $32,000,000.

Senator Hitchcock. More than that now; about $60,000,000.

Mr. Conant. Does that not include the surplus? I think the capital is about 160,000,000 francs.

Senator Hitchcock. It was enlarged.

Mr. Conant. In the revision of the charter in 1911 perhaps. I had not noted that. That only strengthens my point, that the central banks of Europe all have large capitals, notwithstanding their deposits are relatively small. They have large capitals, which have a good moral effect. A bank with only $5,000,000 capital in New York would be almost negligible. You would get a good deal more confidence in your bank if you made the capital $25,000,000 or $50,000,000. Therefore I would suggest that those provisions be recast, and be not made mandatory upon the country banks, and I do not think they should be made so upon the city banks, but I think you could frame provisions that would lead the city banks to come in.

There are a good many ways of doing that. It is often said that it is easier to catch flies with molasses than with vinegar. Practically in every European banking reform steps have been taken to persuade the smaller banks to come in, but they have been allowed to retain their privileges until they expired. In the case of Sweden, where the central bank was formed in 1904, the other banks, the so-called State banks, were allowed to rediscount for a term of years at a certain percentage, 1 per cent, I think, below the established market rate, provided they came into the system and surrendered their existing circulation. There was no attempt made to wipe out their existing rights without compensation, as some critics say there is in this bill.

It is not conducive to financial confidence to apply the club to a banking institution; it is likely to cause distrust. If you can frame a system that will be attractive to the larger banks—I think they are

the ones that should be persuaded to come in first, and then if they do accomplish all that you wish, try to get the country banks, and form your additional reserve associations. The position of the smaller country banks would be changed only for the better, in any case. It could not be made worse, because the bank would still have its capacity for obtaining help from the bank from which it has always obtained it—around Chicago they would get it from the First National or the Continental Commercial, and there would be the additional advantage that this power of rediscounting would exist, from which it would profit, indirectly, if not directly.

I do not suppose in any case that the little $25,000 bank is expected to turn up very often at the counter of the Federal reserve bank and ask for rediscount. If they do, it is going to impose an enormous amount of clerical work upon the Federal reserve banks. We have 7,000 national banks; even if all of them alone were doing that, you would have to have competent experts at the Federal reserve banks to pass upon the paper of every one of these banks. It is not necessary if those banks can lean upon their present correspondents, who know all about them, and who are willing to help them, and do help them, except when their reserve falls below the 25 per cent limit. Therefore I believe you would find in starting a new experiment of this kind, you had better build it up by degrees rather than try to do it all at once.

Senator Reed. You think that would be less likely to produce disturbance at this time if we started gradually?

Mr. Conant. Very much less likely.

Senator Reed. Do you think there is any danger of disturbance if we try to apply this system, and do it, if you please, by force?

Mr. Conant. That is hard to say. There is already a distrustful feeling among the banks. I do not think there is on the part of the public. I do not think there is very much feeling on the part of the public upon the subject.

The provision in regard to the transfer of reserves I consider rather dangerous. You have had calculations, I think, submitted to the committee showing the amount of rediscounts which would be necessary to put the system in complete operation at the end of three years. That is, of course, a considerable interval, and during that time the banks would do their very best to meet the requirements, and under the present proposal the country banks—the smaller banks—would be compelled to draw very heavily upon their present reserve deposits in New York, Chicago, and St. Louis and in the reserve cities. It is possible that spreading that over three years would avoid trouble, but I am afraid that trouble might come, especially if we should have a contraction of credit, because the banks in the reserve cities are bound to make some contractions in some form—temporarily, at least—if the country banks call upon them, as has been estimated, for $170,000,000 of their deposits. Those are the figures I have seen indicated—that the country banks would call upon the reserve cities for about $170,000,000, and the reserve cities would, in their turn, call upon the central reserve cities for $170,000,000, making a total of $340,000,000. There is a way, of course, of maintaining the loaning power of the Federal reserve bank through rediscounting, but to make that rediscount compulsory as a mere ele-

ment in getting the system on its feet seems to me to be hazardous. In order to start the system, you have got to get several hundred millions in rediscounts.

Senator REED. Is not that the only way we can start it?

Mr. CONANT. Under the bill as it stands I believe it is about the only way you would have. You would either have to make large rediscounts or a considerable contraction during the three years. Of course, it would be adjusted as smoothly as possible, and the banks in the central reserve cities might gradually shift their loans. Under the present reserve system in New York they would shift them to the State banks and trust companies to a certain extent. Every effort would be made by the banks to make the transition as smooth as possible, and they might succeed; but I think there is a little danger, if we should happen to have a period of credit contraction, a period of pressure abroad, which causes a demand for gold in this country. The demand for gold here, coming under our present system, with no defensive methods already in operation, with no defensive system already established for protecting our gold—that condition existing, if a war should break out in Europe and big Government loans should be issued, and every foreign house here should decide to subscribe, and in the meantime foreigners lending money here—calling in their loans—that might result in a gold-export movement which would impair the reserves of the New York City banks and of the other big cities, like Chicago, Philadelphia, and Baltimore. If that should happen, it might make it very awkward for these banks in the central reserve cities to meet the withdrawal of the reserve deposits of the country banks, which the country banks now have with them to the extent of $170,000,000. I think there should be considerable elasticity given to such a proposal, at least.

You would get that elasticity—the proposition which I proposed to submit was this, in regard to reserves: Taking the bill as it stands, the House committee, at the very last moment before the bill got out of the caucus in the House, reduced the reserve requirements of all classes of banks other than the Federal reserve banks. It reduced the amounts which the existing banks would have to maintain as reserves, and that, of course, was a considerable reduction of the preexisting provisions of the bill. It gave a little more leeway as to the amount the Federal reserve banks might keep afloat.

But notwithstanding that, I think the danger is not entirely removed, and I was going to make this suggestion. This assumes, of course, that the bill continues to be mandatory upon small banks. I would make the suggestion that, so far as the requirement is concerned that the small banks keep their reserves with the Federal reserve banks, wide discretion be given to the Federal reserve board. I prepared a letter to Representative Bulkley, of Ohio, just before the change was made, which is general in its application, as a substitute for section 20, the section which provides for such a reserve. My suggestion was this:

That of the reserve of 15 per cent required by law to be kept by national banking associations classified as country banks and situated outside of central reserve and reserve cities, the Federal reserve boad may, from time to time, in its discretion, require that a certain percentage, not exceeding in any one year one-fifth of said required reserve, shall be transferred to the Federal reserve bank of the district in which it is situated.

I assume that the Federal reserve board would order those transfers as fast as money-market conditions permitted. I believe in the principle that reserves should be concentrated in the Federal reserve banks and no interest should be paid upon them. We are not dealing with a theory entirely, however, but with a condition, and I believe that discretion should be given in applying the principle of absolutely concentrated reserves and of not paying interest upon them. Of course, at the present time many of the country bankers, I think, dislike the idea of losing all the interest on their reserve funds in the reserve cities. Theoretically, they are absolutely wrong. Practically, they are looking at it from the standpoint of the earning power of their banks in the existing situation.

Senator REED. What is your recommendation?

Mr. CONANT. My recommendation is that of the reserve of 15 per cent required by law to be kept with the national banking associations classified as country banks and situated outside the central reserve and reserve cities the Federal reserve board may, from time to time, in its discretion, require that a certain percentage, not exceeding in any one year one-fifth of this required reserve, shall be transferred to the Federal reserve bank in the district in which it is situated. That is only in respect to banks classified by the comptroller as country banks.

Senator HITCHCOCK. Instead of placing 5 per cent in the reserve center, you leave it to the discretion of the Federal reserve board to order them to do it?

Mr. CONANT. Yes; with 3 per cent each year for five years, if they consider it safe. The transfer ought to be made ultimately.

This is based upon the theory that the bill remains compulsory upon the national banks, or that it is made so attractive that they ought to come in.

You would not need this so much if you adopt my other proposition that the smaller banks be not forced in. In that case they would keep their reserves where they saw fit. But if they are to be compelled to come in or be dissolved in a year, then, I think, they should have this option.

Now, I do not know that I need to say any more on that subject at the present time. Perhaps it would be pertinent to take up——

Senator NELSON (interposing). What about the character of the notes?

Mr. CONANT. I am coming to that.

Senator NELSON. And the character of money they ought to be redeemed in?

Mr. CONANT. I am coming to that.

In regard to the question as to whether the notes should be Government notes or bank notes, I take very much the same view as Prof. Sprague, that it is an academic question. Upon all sound principles of political economy they should be bank notes. The dividing line, however, which determines whether it is important that they are bank notes or not, the dividing line between danger and safety lies not in what you call them, but how they are issued. The great danger of Government notes is the tendency of the Government to over-issue. I believe Prof. Sprague said that the time when that would be done has gone by. That is also my view—that no administration in this country, unless we go to pure socialism, would ever find it advisable or necessary to issue greenbacks to meet current dis-

bursements. No matter how great a war we might be involved in there are so many other ways of raising money that I do not believe that any administration would be foolish enough to put out greenbacks to any considerable extent to pay its obligations Of course, there is a substratum of comparative safety, just as in England you have the authorized circulation which is practically a Government note, in a way, because it rests upon Government security.

A prudent Secretary of the Treasury might, if he was satisfied that there was no particular disturbance going to be caused, issue up to, say, $300,000,000 of greenbacks; but I take it that no administration or party is ever again going to do what was done in the Civil War—print paper and turn it into the current cash of the Treasury, and use it as the sole medium of exchange. Whatever justification there was for that at that time has gone by. It is a moot question whether it was necessary to do it at that time. The New York bankers said no, it was not necessary; they could find all the money the Government needed. The situation grew so rapidly critical, however, and the administration hesitated so long that it seemed to Secretary Chase, at least, to be a necessity to print some notes in order to have current cash. Conditions then were different from what they are to-day. There was not the enormous sum of saved capital which exists to-day.

As you all know, the power of taxation was not resorted to promptly. There was a fear it would be unpopular, and so they delayed clapping on the internal-revenue taxes which were levied about the time the war was over.

Our experience in the Spanish War shows how the public opinion of the country had advanced. In any future emergency of that kind an administration would impose all necessary taxation. I do not mean they would impose taxation to meet all the outgo, but sufficient to meet a considerable part of the outgo at once, just as quickly as Congress could be gotten together. I do not believe there would be a minute's hesitation, but it would be done just as quickly as it was at the beginning of the Spanish War.

There has been so much progress in monetary science that I do not entertain the fear entertained by some bankers who think we would drift into irredeemable paper. The danger lies, as I started to say, not in what the paper is called, but in the way it is issued—who determines the amount that is issued. If it is determined by business needs, there is no danger of overissue, except the danger that is always inherent in any growing country that there will be overexpansion of credit; but the name of the notes makes no difference in that case, whether they are called Government notes or bank notes. If the control of the quantity is in the hands of the business community, you have what is in effect a banking currency, even though you call it a Government currency, and there may be some advantages in calling it Government currency. Personally I do not think the advantages are very great. To some people the stamp of the Government conveys something, and the fact that the currency was called Government currency might convey a certain degree of confidence. Possibly the fact that the currency was practically uniform would mean something, and I think knowing that the country was behind it might mean something.

I think another consideration is the arguments which lie against a Government currency would not be so great in this country as in Europe, because in Europe there is grave danger that if Government currency was issued, say, by France—issued against a gold reserve—in case of war and conquest that gold reserve would be immediately sequestrated by the conqueror. The only reason why the gold was not shipped to Berlin in the war between France and Germany in 1870 was because the German Government recognized the right of private property in the shareholders of the Bank of France.

Senator NELSON. Even the Commune recognized that.

Mr. CONANT. Yes; but it required some diplomacy. If they had needed money badly, they could have gotten hold of it.

Now, in this country, that of course is not a serious menace. However serious a war may be, we do not expect our enemy will enter New York or Washington and ship our gold reserve home. It is hardly conceivable they would get that far with our modern defensive appliances. We might be badly beaten over in the Philippines or in Cuba——

Senator NELSON (interposing). But if we had our money at Chicago or Minneapolis we would be all right?

Mr. CONANT. Yes; it would be safe at Minneapolis, except if we had a raid across the border. Consequently, as I say, the question of name is not vital, in my opinion. The criticism that is made upon it is based, to a large extent, upon the memory of our very unfortunate experience during the Civil War. I am absolutely opposed to any note issue by the Government itself in the form of greenbackism to be put into the Treasury cash for current disbursements.

Now, in regard to the manner of determining the issuing of these notes, I am not antagonistic particularly to the proposition of the Senator from Colorado, with some modifications. In response to a question he asked this morning, I would say it would be very optimistic to create a rigid amount of currency exactly equal to the present amount and say that would never be impaired. That may or may not be the case, but it would be sailing too close to the wind.

There are two possible theories of carrying out his plan or of supplementing it. One theory would be, as he suggested, to superimpose the elastic element above his rigid Government element and leave that elastic element in the hands of the banks. That is practically what the pending bill does by providing for a new form of issue. The other alternative would be to provide for expansibility and contractibility in this Government currency itself.

Senator HITCHCOCK. You would retire the $700,000,000 of bank-note currency?

Mr. CONANT. And put an equal amount in its place.

Senator HITCHCOCK. But what is put in their place is capital asset currency.

Mr. CONANT. No; the Government notes.

Senator HITCHCOCK. You just said, practically, it did not matter what name you called it.

Mr. CONANT. No; but this currency would not be subject to banking control or influence. It is rigid. I say you should not have your rigid amount too large. But these notes, under the bill of the Sena-

tor from Colorado, as it stands, would be simply a rigid amount, never increased, as the bill now provides, and never reduced. If the country kept growing that rigid amount means no menace, but to start with the existing measure and with an amount that is now sufficient you might have contraction, because you might have a contraction of trade which would compel a considerable redemption of those notes.

Senator WEEKS. Do you mean you can not have the amount too large—you should not have it too large?

Mr. CONANT. Yes; you should not have it too large.

Senator HITCHCOCK. I understand you are referring to this bill?

Mr. CONANT. No; I am referring to Senator Shafroth's bill.

Senator HITCHCOCK. I know; but you are not referring to this one wholly?

Mr. CONANT. No; I am not referring to it wholly. He has provided for bringing the gold certificates, the greenbacks, and the existing national bank notes into one form of notes, with a 50 per cent gold reserve behind them. There is the difficulty, of course, that if your reserve drops below 50 per cent you have no way of replenishing it except by the sale of bonds; but if you have a fund derived from the interest on the bonds redeemed the idea is not a bad one to take that fund and employ it to obtain gold. Before Senator Shafroth introduced his bill I had prepared something along those lines, dealing with the elastic element in a little different way. Perhaps I might as well take that up now and have it put into the record if agreeable to the committee. Instead of reading the technical language I will give the technical language to the reporter, if you like, and explain simply the general scope of the measure. And I may say that this combines some of the elements of the idea that Mr. Alling presented here, although I prepared this before he was here—well, I had read his pamphlet; but it combines some of the ideas of his plan with the plan of Senator Shafroth.

I propose that a fund shall be put in the custody of the Federal reserve board. I propose that all the funds now kept for redemption purposes in the United States Treasury shall be put in charge of the Federal reserve board. Of course, it would not exclude the physical custody of the United States, but its control would be under the Federal reserve board under the careful limitations of the bill, and they would naturally take over the powers of the present Division of Issue and Redemption of the Treasury, which are really nothing but clerical powers.

Then the Secretary of the Treasury is directed, with the approval of the Federal reserve board, to issue from time to time Federal reserve notes in exchange for gold certificates, which certificates when thus exchanged shall be canceled and destroyed and not reissued. Then there is a provision that there shall be a 50 per cent reserve against that. That, I think, is substantially in accord with Senator Shafroth's bill. The purpose is not to violate the trust created by the issue of the gold certificate; the proposition is that, as gold certificates come into the Treasury from various ports from day to day, they shall be canceled and Treasury notes substituted. There is no compulsion. No man holding gold certificates now is required to give them up or to exchange them for Treasury notes.

There are one or two ways of forcing the notes in, to which I will refer presently. The proposition is that the collector of customs of New York, or the subtreasurer, or to whoever the Government money is paid in, and the customs or internal revenue collected, it shall be their business to send all receipts to the Treasury, and it shall sort out the gold certificates and substitute new notes. As fast as the fund of free gold permitted new notes would be issued for the bonds in the hand of the banks at par. I believe there should be a premium paid of 102. I will not enlarge on that point but will assume for the sake of discussion that bonds are to be purchased at par at once.

(The proposed suggestions are as follows:)

[Sept. 11, 1913.]

PROPOSED AMENDMENTS TO CURRENCY PLAN, FOR PAYING OFF 2 PER CENT BONDS.

SEC. 16 (a). There shall be established in the Treasury a fund which shall be known as the Federal reserve note fund, which fund shall be in the custody and under the direction of the Federal reserve board, and shall contain all moneys in gold and silver coin and bullion held for the redemption of gold certificates, silver certificates, United States notes, Treasury notes, and Federal reserve notes, together with such notes in process of redemption or issue: *Provided*, That operations relating to this fund shall be separate and distinct from the ordinary fiscal operations of the Treasury, and shall not increase or decrease the general fund of the Treasury except as specifically authorized by this act: *And provided further*, That the functions of the divisions of the Treasury provided for in section four of the act of March fourteenth, nineteen hundred, entitled "An act to define and fix the standard of value," and so forth, shall be transferred to the Federal reserve board.

SEC. 16 (b). The Secretary of the Treasury is directed, with the approval of the Federal reserve board, to issue from time to time Federal reserve notes in exchange for gold certificates, which certificates, when thus exchanged, shall be canceled and destroyed and not reissued; and any gold coin or bullion received by such exchange in excess of the amount required to constitute a reserve of 50 per centum against said Federal reserve notes issued and outstanding shall be set aside as a special fund, under the control of the Federal reserve board, for the purpose of constituting a reserve against further issues of Federal reserve notes under the provisions of this act; but no Federal reserve notes shall be issued, except as provided in this act, which are not covered by the amount of at least 50 per centum in gold coin or bullion.

SEC. 16 (c). The issue of gold certificates upon deposits of gold coin or bullion shall cease upon the passage of this act; but the Secretary of the Treasury shall continue to receive deposits of gold coin with the Treasurer or Assistant Treasurers of the United States, and to issue therefor, under regulations prescribed by the Federal reserve board, an equal amount of Federal reserve notes, and the coin so received shall be added to the Federal reserve note fund.

SEC. 16 (d). The Secretary of the Treasury may from time to time, with the approval of the Federal reserve board, purchase from any national bank accepting the provisions of section two of this act any part of the United States 2 per centum bonds or of the 3 per centum loan payable in nineteen hundred and eight held by such bank at the price of one hundred and two and accrued interest, and may issue in payment of the principal thereof reserve notes. Said bonds shall be held in the Federal reserve note fund as a part of the security for Federal reserve notes issued and outstanding: *Provided*, That the amount of Federal reserve notes outstanding, issued in exchange for gold certificates or in the purchase of United States bonds under the provisions of this section shall not at any time exceed the amount of gold coin and bullion and of United States bonds, valued at par, held in the Federal reserve note fund.

SEC. 16 (e). Section six of the act of July fourteenth, eighteen hundred and ninety, entitled "An act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes," is hereby repealed; and

the balances standing with the Treasurer of the United States to the respective credits of national banks for deposits made to redeem the circulating notes of such banks, shall be paid in cash by the Treasurer of the United States from the general fund of the Treasury into the Federal reserve note fund, and all such deposits thereafter made for like purpose shall be paid into the Federal reserve note fund and shall be paid out from time to time for the sole purpose of redeeming the national bank notes of the banks for whose account such deposits were made: *Provided*, That national banks surrendering United States bonds to the Treasury under the provisions of section sixteen (d) of this act may deposit in the Federal reserve note fund such portion of the purchase price, under regulations to be framed by the Federal reserve board, as may be sufficient for the retirement of the national bank notes then outstanding secured by the United States bonds surrendered; and all acts or parts of acts limiting the amount of such deposits are hereby repealed. (See sec. 4, act of Mar. 4, 1907.)

SEC. 16 (f). The interest upon United States bonds held in the Federal reserve note fund may be employed, in the discretion of the Federal reserve board, for the purchase of gold coin or bullion for maintaining the reserve in gold held against outstanding Federal reserve notes; for the creation and maintenance of a guaranty fund for the payment of deficiencies in the assets of any Federal reserve bank which may liquidate without meeting its obligations in full or any other losses incurred by the Federal reserve note fund; and for the redemption of the interest-bearing debt of the United States.

(This section would probably have to be elaborated and some limitations fixed, if adopted.)

Section 17 of the printed bill: Strike out after the word "notes" in line 1, down to the words "is hereby authorized," in line 4.

Strike out all provisions requiring Federal reserve banks to hold lawful money reserves against notes.

Section 19, relating to refunding 2 per cent bonds into threes, should be entirely stricken out.

Senator REED. The Government would commence, if it was ready, to redeem those bonds.

Mr. CONANT. Yes. I will show you in a moment how they might put some restrictions on that, because of course the Federal reserve board would not have gold enough at first.

Senator REED. I mean if it was ready to redeem when presented.

Mr. CONANT. Yes; from time to time.

Senator REED. With the right, of course, to refuse.

Mr. CONANT. Yes. Now you can see at once the amounts are such that you could just about take up the outstanding 2 per cents, and I think you might throw in a quantity of 3 per cents that matured and were continued. I think they are the bonds issued——

Senator NELSON. During the Spanish War?

Mr. CONANT. Yes; issued during the Spanish War. There are a few of those out, $25,000,000 or $30,000,000. I think you could take those up and get them out of the way, with this gold.

Now, what the banks have to do it this: They are pledged to deposit lawful money to redeem the notes against which they have withdrawn the bonded security. The result is, therefore, if they turned in the bonds and gold was handed to them, then they have got to turn around and deposit gold with the Treasury or Federal reserve board.

Senator NELSON. Or new notes?

Mr. CONANT. Yes; they have got to turn around and deposit something.

The CHAIRMAN. To redeem those notes?

Mr. CONANT. To redeem those bank notes which are still in circulation. Of course, by that process there is neither contraction nor

expansion after the process is completed, because whenever a bank withdraws its bonds and receives the money for them, they must deposit an amount of money equal to the outstanding notes. The general public will not notice any difference so far as the money is concerned; they will only see they are getting a new form of note.

This compulsion could be applied to the banks which showed a disposition to hoard gold certificates. The Federal reserve board would be able to exercise discretion when a bank came forward and said, "We have here $50,000 of 2 per cent bonds to be redeemed." If it was hoarding gold certificates at that time, the Treasury would be in a position to ask that it surrender certificates and take notes. The board would have that power of decision to accept bonds first from the bank that would surrender its gold certificates.

Senator REED. When you get this currency out with 50 per cent on the dollar in back of it, and then the bank has a reserve of 33⅓ per cent gold, would you accept that money as you now accept the gold certificates?

Mr. CONANT. I am in some doubt about that. I am inclined to think, however, so far as the banks are concerned, a reserve in lawful money against deposits is good enough for their vaults. When it comes to the Federal reserve banks, I think it is desirable there to require them to keep reserves in gold.

Senator REED. Do you mean just what you said? Under this system which you are now discussing—the retiring of gold certificates, that the Federal reserve banks would not be required to keep any gold reserves?

Mr. CONANT. No; I intended to say the opposite—that the Federal reserve banks, I am inclined to think, should have a large fixed percentage of reserve in gold. It would operate this way. You see, at the present time the banks in central reserve cities are required to keep a 25 per cent reserve, which, let us assume for the sake of argument, is all gold. That is in the banks in the central reserve cities. Now, under this bill you raise the requirement to 33⅓ per cent. I would prefer raising it to 40 per cent with certain provisions——

Senator REED. Gold or paper? That is what I want to get at.

Mr. CONANT. If this 40 per cent consisted of Government notes of the kind I have described, covered by 50 per cent in gold, it would still be equivalent to 20 per cent gold, and would be four-fifths as much gold as we have considered sufficient as we have it to-day in regard to the deposit of reserves in the central reserve cities. I am not sure whether I would require the Federal reserve banks to keep all gold or 50 or 60 per cent of their total reserves in gold, but I can not see that you would get a great impairment if you do not make any requirement of that sort, because you have raised the Federal reserve requirements.

Senator HITCHCOCK. After you retire 1,000 millions of dollars of gold certificates, which are legal tender, good for all reserves, and issue in their place 1,000 millions of dollars of notes only good with reserves behind them, not good either for reserves or legal tender, you have made a pretty severe contraction.

Mr. CONANT. You mean in legal-tender money?

Senator HITCHCOCK. Yes.

Mr. CONANT. I see no objection to their being legal tender. Does not the bill make them legal tender?

Senator HITCHCOCK. No.

Mr. CONANT. The tendency has been in recent years to give the character of legal tender to notes issued by the banks.

Senator HITCHCOCK. That legal-tender note is good for reserves.

Mr. CONANT. Not necessarily.

Senator HITCHCOCK. Do you know of any legal-tender note not good for reserves?

Mr. CONANT. No; not under our laws. But you are making laws. In Europe notes of the Bank of Germany are legal tender and not good for reserve.

Senator HITCHCOCK. They are good for any other bank except the banks which issue them.

Mr. CONANT. I believe so. But there is no legal reserve requirement for other banks; they keep what they like—till money.

Senator POMERENE. There is no requirement at all?

Mr. CONANT. I do not think there is. I know in France the joint-stock banks are not required to keep any specified reserves, but with the little State banks in Germany, that originally issued notes, they may be required to carry small reserves against notes. They have small deposits and are small institutions. But the big institutions have no requirement.

Senator NELSON. And there is none in England?

Mr. CONANT. No. Now, what you can accomplish, if you wish, is to separate the legal-tender quality from the gold-reserve requirement. You can say, just as it is competent for Germany to say, that they shall keep a certain per cent of reserve in gold coin and the rest in lawful money. I do not know whether it is necessary, but the two things are not absolutely and indissolubly linked.

Senator HITCHCOCK. But certainly you could not make it gold reserve money and not legal tender?

Mr. CONANT. No.

Senator HITCHCOCK. That is a certain bar.

Mr. CONANT. Yes.

Senator HITCHCOCK. And it is not legal tender under this bill?

Mr. CONANT. I was under the impression it was. It is a Government note.

Senator HITCHCOCK. Yes; but it is not legal tender.

Mr. CONANT. It is a uniform note.

Senator HITCHCOCK. It is discredited currency, in other words.

Mr. CONANT. You would favor making it legal tender?

Senator HITCHCOCK. Yes; I think so. I think it drives gold out of the country.

Mr. CONANT. I am not acquainted with the reserve laws in all cases, but they have no reserve requirements in most places.

Senator HITCHCOCK. It is left in a condition where the currency would be based on bank credits.

Mr. CONANT. You are speaking of the provision for expansion?

Senator HITCHCOCK. In the bill as it stands now.

Mr. CONANT. But under the plan of simply substituting Treasury notes secured by a 50 per cent reserve, for existing bank notes and existing gold certificates, there would not be this change of quantity,

that is sure. There might be a change in the quantity of legal tender, if you like, but not in the quantity of available money.

Senator HITCHCOCK. That is true.

Mr. CONANT. I believe that could be worked out and that we could hereafter, perhaps, assimilate the notes issued under this bill with the old ones. But, in order to do that, you would have to put some such plan as suggested by Mr. Alling, or some modification of it, into practice—whenever the gold reserve and gold notes fall below 50 per cent either charge an enhanced tax for the issue of other notes, or compel certain steps to be taken to strengthen your 50 per cent reserve. I think all those functions should be, as far as possible, performed by the Federal reserve board and the Government should not be compelled to intervene to restore the 50 per cent, except in very extreme emergencies. It is up to the banks to adjust their affairs—and they will do it if they have proper powers—to protect the gold reserves and adjust them to the demands of business. They can do it even if it is issued from the Treasury.

Senator NELSON. There is one question now. It may be out of order, but I would like to ask it just now, and it is this: If the legal reserve banks are required to keep 33 per cent in reserve for their outstanding obligations, including currency, and you made that requirement in gold, they would ultimately absorb the gold certificates, would they not?

Mr. CONANT. I do not know just how much gold would be required. The banks at present, of course, have considerable free gold of their own.

Senator NELSON. There is practically, is there not, Senator Hitchcock, about a billion dollars?

Senator HITCHCOCK. Yes; about $1,100,000,000 of gold certificates.

Senator NELSON. About a billion dollars?

Senator SHAFROTH. $1,100,000,000; I think this morning it was $1,089,000,000.

Mr. CONANT. The banks have free gold in actual gold and in clearing-house gold certificates amounting to $229,000,000. The amount of gold they hold in Treasury certificates is $337,000,000. That is the amount which would be involved in your question—$337,000,000.

Senator NELSON. Yes.

Mr. CONANT. But you must remember that you have reduced the amount of reserve requirements for the country banks, and you are requiring 33 per cent now of the Federal reserve banks.

Senator NELSON. Yes.

Mr. CONANT. But they would not require anything like as large an amount in actual money.

Senator NELSON. But that is reserve for both deposits and circulation and for notes.

Mr. CONANT. But under Senator Shafroth's plan it would not be converted into gold certificates, and so I think there would be ample gold to cover the excess.

Senator NELSON. I am referring to the bill.

Mr. CONANT. You are taking the bill in its present form. I thought your question related to Senator Shafroth's bill.

Senator NELSON. No; I am taking this bill. If you strike out the words "lawful money"——

Mr. CONANT (interposing). And require gold?

Senator NELSON. Yes.

Mr. CONANT. Well, you can tell under the present reserve requirements just how much that would require.

Senator NELSON. It would be 33⅓ per cent of $105,000,000. That is, if you base it on your capital.

Mr. CONANT. Yes; but if you base it on deposits it would be many times the amount of the capital.

Senator NELSON. Deposits and note circulation, that is what it is based on.

Mr. CONANT. Yes.

Senator NELSON. And you could only figure with it at present taking the deposits and gold reserve.

Mr. CONANT. The legal tenders the banks now carry are about $171,000,000. To substitute gold for that would not be difficult.

Senator NELSON. Oh, no.

Mr. CONANT. They have got some gold in excess of the reserve requirements now, and would get some gold out of the Treasury if they had to have that amount of reserve, but you see you reduce the reserve requirements very materially, so I do not think there would be any trouble about sufficient gold.

Senator SHAFROTH. Mr. Conant, I have had to be away attending a meeting of the Committee on Appropriations, and if you can give me, in a few words, what your comment was on the bill which I introduced I would thank you very much.

Mr. CONANT. Well, I spoke rather favorably of it.

Senator REED. I was going to tell you, Senator, but Mr. Conant has already answered. I was going to tell you he thought it was a very bad bill, but I can not tell you that now. [Laughter.]

Mr. CONANT. In addition to what I have already said it involves a very important feature in persuading the banks to come into the system. There is very great anxiety among the banks to-day as to the 2 per cent bonds. There is no market for them, and as there is no market for them, if the banks begin to throw them on the market, they would go down to 80 or 75. Now, if you offered them a sound, just, absolutely sure system of disposing of their bonds I think you would go some way toward removing hostility to the bill.

Senator SHAFROTH. It would save the Government about $14,000,000 a year, would it not?

Mr. CONANT. Unless you followed the idea of Senator Owen——

The CHAIRMAN (interposing). About $11,000,000.

Mr. CONANT (continuing). To convert them into 3 per cent bonds, and I think it is a very good idea to turn the interest on those bonds into the reserve to provide a fund if you are going to make the notes Government notes. Of course, that has no application to the 50 per cent reserves, but the interest on that fund could be used to maintain the reserve. It could be used in various ways if the Federal board had control of it.

Senator SHAFROTH. That would save, the showing about the bonds being in there—the only thing is you would have the interest going to the Government instead of to the national banks.

Mr. CONANT. Yes. It would be put in a sort of a sinking fund to protect the gold reserve. If the gold reserve kept piling up, as it would under this plan, until you got 60 per cent, then you might authorize the Federal reserve board to use some of the assets to re-

deem the funded debt. In that way it would be covered into the Treasury cash.

Senator SHAFROTH. If all of the gold certificates were turned into this retirement fund, there would be a retirement fund in gold of nearly 6 per cent at the present time.

Mr. CONANT. I do not quite follow you.

Senator SHAFROTH. I mean by that at the present time they are close to a billion, 100 million of gold certificates.

Mr. CONANT. You mean 60 per cent. You said 6.

Senator SHAFROTH. No; 60 per cent.

Mr. CONANT. Oh, then, I understand you. I thought you were working on some smaller sums.

Senator SHAFROTH. No. There is $178,000,000 of gold in excess of the amount required for the national bank notes and for the United States notes at the present time.

Mr. CONANT. You would find some hoarding of the gold certificates. Some would never come in. You would find on the part of some banks and private banking houses a disposition to hold onto the gold certificates instead of taking new notes. The average man on the street would never hold onto a gold certificate. He has no sentiment because it is a gold certificate.

Senator SHAFROTH. I regard the 50 per cent reserve as adequate.

Mr. CONANT. Oh, yes. But you must have some means, not found in your bill as it stands, to protect your reserve, to protect it against impairment, and I have suggested that you carry the system even further than you do and have all the notes issued under the bill assimilated, and have a power in the Federal reserve board so as to afford a means of protecting them.

Senator REED. What are the means? That is the whole thing.

Mr. CONANT. I had a few points jotted down in regard to that.

Senator REED. I did not mean to interrupt the course of your discussion. Of course we all understand a 50 per cent reserve is ample if you have a means of protecting it.

Mr. CONANT. Suppose you had a provision like this: Whenever the gold exceeded 50 per cent, additional notes could be issued for commercial paper by the Federal reserve board under a tax of 1 per cent; and when it got below 50 per cent, the banks could not get any more notes on commercial paper, except by paying a tax of 5 per cent, the rate that is paid in Germany, Austria-Hungary, and Japan. That would be pretty conservative, and it would keep the reserve of 50 per cent uniform. You must have some clumsy method of replenishing the reserve, by selling bonds, or else you must have some power in the Federal reserve board of maintaining the 50 per cent. And then I suggest that the interest paid on the bonds would constitute a fund for the purpose, to be used only temporarily. When the gold came back the money would be at your command again.

Senator REED. You say the interest paid in on the bonds, by which I understand you to mean if we were to issue this money 2 for 1 and use it to retire the bonds, then we would treat that as though it was paid and continue every year to set aside the 2 per cent we now pay on the bonds into a fund and to call it an interest fund and use that fund to buy gold if we needed it.

Mr. CONANT. Yes.

Senator Shafroth. Senator Owen's bill suggested a little further to issue 3 per cent bonds for the 2 per cent and to put those into the Treasury for the retirement of notes, and the interest would be paid—I do not know whether the bill provides the interest would be paid, but it can be paid into a fund. It is a very good suggestion, it seems to me.

Mr. Conant. I think it is a very good suggestion, and also the suggestion of the chairman that the bonds be held. It will be much more inspiring. Of course it can not be said under this plan that you are proposing to create fiat money, because you have 50 per cent gold and 50 per cent covered by bonds. Then it may be fairly said that the currency is covered by 100 per cent. Of course, ultimately, as the bonds would not increase, if the gold deposits came in year after year, the bonds would shrink in their ratio to the whole and there would be a great excess of gold.

Senator Shafroth. Then would you advise authorizing the Secretary of the Treasury to sell bonds in order to buy gold?

Mr. Conant. I think he should have that power, something along the line suggested by Prof. Sprague, to sell short-term obligations, because then, you know, you would not be paying interest on a permanent debt.

The Chairman. You could borrow gold from the fiscal agents.

Mr. Conant. Yes. I take it, as it stands now, it is possible to sell bonds in the market with the privilege of repurchase, as is done by the Bank of England.

The Chairman. That is the substance of it.

Mr. Conant. I think the power should be conferred on the Federal reserve board, and, as far as possible, the whole matter should be left to the Federal reserve board.

Senator Nelson. Under this system the Federal Government, when the Federal reserve banks apply for the currency, would give the greenbacks for the notes outstanding and the national bank notes and gold certificates, and assuming there was a million of this currency, there would be upward of two billions to be backed by one billion of gold.

Mr. Conant. Yes; approximately.

Senator Nelson. We will assume they all want gold, and they are going to draw it out and reduce it to 25 per cent.

Mr. Conant. Yes.

Senator Nelson. Now, who is to furnish it, the Government or the reserve banks?

Mr. Conant. I should say that the function should be thrown, as far as possible, on the reserve banks, but I think it necessary to have a reserve power in the Government. Whenever the currency of the country needed to be increased, there would be only two ways of doing it—two or three ways: Gold might be imported or gold might be purchased in this country, and it might be tendered to the Treasury and an equivalent amount of Treasury notes would be handed out. You see in that case the Government would get 100 per cent of gold, while they are only required to hold 50 per cent, so that the proportion of reserve would constantly increase in prosperous times. And then in poor times, if there was a big gold demand from Europe, then the gold would either have to come from the surplus above 50 per cent or the defensive efforts made by the Federal reserve board

by raising the discount rate. If notes were needed they would be obtained by paying to the Government an excess tax on notes issued while the reserve was below 50 per cent.

Senator NELSON. Let me ask: You would have this new currency under Senator Shafroth's plan the only paper currency, or would you have, in addition to that, these notes of the reserve banks?

Mr. CONANT. I am discussing now having but one kind.

Senator NELSON. But one kind. Then if all of those were Government notes, backed by a 50 per cent gold reserve, how would the reserve bank use their rediscount privilege for the issue of currency? They would be simply naked banks of deposit and discount, would they not in that case, and the currency would all come from the Government?

Mr. CONANT. Yes; in a sense they would be, but they would apply to the Federal reserve board for additional currency, and if the reserve is 50 per cent or higher they would get that additional currency in the same manner as proposed in the Owen-Glass bill, by depositing commercial paper.

Senator NELSON. Yes.

Mr. CONANT. They would get it at 1 per cent, say. Now, if the reserve was below 50 per cent they would have to pay 5 per cent to get additional notes. Now, it is for the banks to decide whether they will purchase it at 5 per cent or go without the money. If it is cheaper in Europe they can import gold. They will have that option.

Senator HITCHCOCK. Mr. Conant, do you think there would be any real value in having the Government of the United States issue a 3 or 4 per cent bond and keep it in its own vault as an asset?

Mr. CONANT. There is no great value in it.

Senator HITCHCOCK. Would it not be exactly like mortgaging my house and carrying the mortgage around in my pocket and saying that among my assets is a mortgage?

Mr. CONANT. No; there is a difference. In the bond you have a definite obligation of the Government to pay money at a certain time, and would you not rather have a man's note, if he is solvent, to pay money at a certain time than simply a general obligation for him to pay it to you?

Senator HITCHCOCK. I understand your question. Then, if the mortgage is sold?

Mr. CONANT. No; but is it not better to have an obligation of the Treasury upon which they have been paying interest for many years, and are still paying interest, protected by its faith and credit, than simply having a general unwritten mortgage?

Senator HITCHCOCK. To carry my illustration further, suppose I take out of my right-hand pocket every six months interest on the mortgage and put it in my left-hand pocket. Would that change the status?

Mr. CONANT. Not necessarily, except if I put it in my safe-deposit box I have got that interest laid aside. I agree with you in a measure.

Senator REED. This idea comes in here, however: You might contract with your creditor that you put this paper aside—this mortgage—or deliver it to him, and that from time to time you put aside in a fund the interest, and in that event you would become his

trustee; and if you were an honest man, at the end of the term, if it was called, the obligation would be there and the accumulated interest.

Mr. CONANT. Yes; and would be very much like a bank——

Senator WEEKS (interposing). Mr. Conant, if you are going to provide a bond or other obligation for emergency, would it not be better to provide a bond having a long time to run?

Mr. CONANT. That would depend on circumstances.

Senator REED. Mr. Conant, I regret I have not been able to comprehend fully your plan in regard to this gold reserve. We wish to take up all our gold certificates and substitute for them 50 per cent gold certificates. That is what you might as well call them—50 per cent money. If we can maintain it at 50 per cent, it is safe. Now, there is a raid started. The men bring in these notes, and if there is paid to them a dollar for every dollar of notes it will more than deplete the gold reserve. In the meantime the Government is issuing money from time to time of this same character to the banks.

Mr. CONANT. But if it now issues it it gets either 100 per cent gold or the tax is paid.

Senator REED. No.

Mr. CONANT. Yes; I do not know that I have made that clear, but that would be the effect.

Senator REED. For new issues. Now, the bank wants money for its promissory notes in its vaults, and it goes to the Government and says, "For these promissory notes give us this paper," which you have really already down to a 50 per cent gold reserve. How are we going to give them any paper and maintain that reserve?

Mr. CONANT. At first, you can give them the paper if you have a provision that when the gold reserve is below 50 per cent they shall pay the higher tax for the new paper. If that tax is 5 per cent, which, I think, would be about the right rate, and if the rates for money are not so high as that in other countries, gold would be imported.

Senator REED. How would they get it? You pay a 5 per cent tax to the Government for the money you are going to get out. Consequently, you say, I will not go there for it, I will get my money some place else, and then I have got to go over and borrow gold in Europe.

Mr. CONANT. Yes.

Senator SHAFROTH. Or sell securities to Europe.

Senator REED. In other words, at the time of stringency—at the very time it is intended to give relief under this bill—you make the tax so high that no relief will be obtained, and you force them to go to Europe?

Mr. CONANT. No; they have the option of going to Europe only in case money is lower there than the 5 per cent tax.

Senator REED. Yes.

Mr. CONANT. If money is plentiful in Europe they go there, and if it is not plentiful they pay the 5 per cent tax.

Senator REED. But the great center and kernel of this bill, if it has a center and kernel, the thing that is attracting popularity to it, is the fact that when the banks of the country get in distress as they did in 1907, there is then to be provided a plan by which at that

time we expand our resources temporarily. Now, of course, if, under those circumstances, they can go to the Federal Government freely—within limits, of course, of safety—and get the money, they will be given a speedy relief. They need $100,000,000 to relieve the situation. They go to the Federal Treasury and get it for 30, 60, or 90 days. Very well. But now, when they go to the Federal Treasury, the Federal Treasury says, "Why, times are hard; money is scarce; gold has been going out of the Treasury. Therefore we will charge you 5 per cent. We are already at the danger line ourselves." Thereupon the bank says, "We can not afford to pay that; we will go to Europe."

Are you not denying the drink of water at the very time when it is most essential to the patient?

Mr. CONANT. No; I think not, Senator. In the first place, we will not get into the critical situation we did in 1907, when currency suspension took place. In the second place, if credit is overextended and gold reserves are reduced, then there should be a brake put on. I am afraid that you were not here this morning when I discussed the relations between the supply of capital and currency. There is a stringency in the money market unless you have adequate free capital, and the barometer of free capital is the reserve. A tax of 5 per cent is not excessive in such a condition. It is the tax which has to be paid in Austria-Hungary, Germany, and Japan. And, furthermore, if it seems excessive to the borrower, he does not have to pay it. If he wants it badly, he will pay it. As a matter of fact, I am more afraid of inflation than contraction, because I think our gold will keep piling up. As you were told this morning, we produce ninety-odd millions of dollars a year. That goes into the monetary stock, and with that money going into the monetary stock it increases the reserve above 50 per cent, because, as I have already said, the Government gets 100 per cent gold when a new dollar is deposited.

Senator REED. As I understand, you propose to provide a plan of levying a tax of 5 per cent or an interest of 5 per cent when we get down close to the 50 per cent reserve, or below it?

Mr. CONANT. Yes.

Senator REED. You propose, in addition, they won't tax a man when we have a 50 per cent reserve in gold. We have that now in our vaults, and it is set aside under Government supervision, and if they want more money they can get it without paying any interest, or a very small interest.

Mr. CONANT. No; that is not exactly the situation.

Senator REED. I would like to get your proposition on that.

Mr. CONANT. The difference is only slight. Probably I have not made myself clear. In the first place, the existing bank notes and gold certificates would be converted into the new currency without changing the quantity, and a reserve of 50 per cent would be set aside. That is the plan Senator Shafroth proposes. Now, I say when new gold comes in and the new notes are issued, the bank would not get $100 in new notes for $50 in gold. It would get notes only to the amount of the gold unless it paid a tax. Of course, it would work around pretty nearly the same if the banker said, "Here is $100 in gold and $100 in commercial paper." Then I say in addition that if the bank pays a tax of 5 per cent it can take another $100 on commercial paper. You see, it divides the tax in half if you put it at 50 per cent gold. While he would directly get 100 per cent in notes

he is paying a tax only on the uncovered part. I am afraid I have not made it quite clear, because it is a little complicated. But after the conversion has taken place with existing currency, I would not permit a bank to get any more notes before it deposited gold.

Senator REED. One hundred per cent?

Mr. CONANT. Yes; 100 per cent. Now, the Government would benefit by that.

Senator REED. Our banks would not want notes at all if they had the gold.

Mr. CONANT. Oh, yes they would; just as a matter of convenience. And in effect the gold reserve would be increased 2 for 1. Don't you see, they get the additional 50 per cent, and if commercial paper pays a 5 per cent tax, don't you see the tax is divided into 2½ per cent on the paper they get? I think that is a sufficient power of expansion.

Senator REED. Then, to put this in my language—and I put it that way in order to be sure I understand it—your mind inclines to this sort of plan, that we take all our gold certificates and all other forms of money we have, greenbacks and bank notes, and convert that into a currency with 50 per cent of gold held in the Federal Treasury, or some other Federal agency, in back of it, and we retire the bonds because we have now retired under this plan the bank notes. Then we start out with a currency with 50 per cent reserve in back of it?

Mr. CONANT. Yes.

Senator REED. And that is what we propose to do the business of the country on.

Mr. CONANT. Yes.

Senator REED. Now, a regional reserve bank being short of money needs to get currency. If it gets currency from the Government we require it to bring down 50 per cent of gold.

Mr. CONANT. Not necessarily; no.

Senator REED. And deposit that and 50 per cent of notes. Then you charge it on the currency issue 2½ per cent.

Mr. CONANT. Well, it works out something that way. I do not know whether you have my idea quite or not. Ordinarily, you see, there is gold coming into the banks all the time which would provide a considerable part of the free gold required for expension. And, as you see, the banks have got to turn in practically all that gold, because they prefer the paper. It is more convenient.

Senator REED. Then you add to my system—I think I catch your idea—that if the Government had a large surplus, above 50 per cent, it would not charge the banks so much interest when they came for help?

Mr. CONANT. That is right.

Senator REED. But when it got down practically to 50 per cent you would make the interest rate a little higher and stop——

Mr. CONANT (interposing). Stop the gold drain, if you choose to put it that way.

Senator REED. You stop the gold drain. In other words, you regulate the question of expansion in that case by the interest. If there is a big gold supply you do not put much of a brake on, if you have plenty of gold.

Mr. CONANT. That is right.

Senator REED. And, second, in case of a gold scarcity being threatened you put on a tax sufficient to stop them from taking out so much of this paper?

Mr. CONANT. Yes.

Senator REED. That strikes me as having a very sound element in it, but the difficulty I find with it is when the gold reserve is lowered then the times are hardest and the danger is greatest, and it is at that time you penalize the banks who must have it, and still that may be the very thing to do.

Mr. CONANT. I think it is the thing to do, if there has been overexpansion, because if there is such overexpansion gold reserves have already become impaired throughout the country, and it is time to call a halt. It is important to remember that there are two phases to a panic. If there is an overextension of credit and approaching trouble, before the trouble has been realized, that is the time the contraction should be applied, but it is not applied in this country, because we have no institution that takes the slightest interest in applying it. On the other hand, when a crisis has actually occurred and confidence been impaired and there is a temporary period of exaggerated distrust, then is when a man, if he has credit impaired by the general feeling of distrust, is quite willing to pay 5 per cent for a few weeks. You know the 5 per cent is the annual rate, and he would not have to pay it for more than a few weeks, and he would not care whether he paid 5 per cent or 6 per cent if it saved him from financial ruin.

Senator SHAFROTH. If he had to pay it for two months it would be less than 1 per cent.

Mr. CONANT. Yes.

Senator NELSON. Mr. Conant, is not this the very emergency currency proposed in the bill? The bill proposes to allow the reserve banks to issue these new notes upon rediscounts of paper equal in value to the new notes with 33⅓ per cent in gold.

Mr. CONANT. Yes.

Senator NELSON. Now this method you propose, if we have to issue currency, we will say, to the amount of $1,000,000, half of that, 50 per cent, is in gold and the other 50 per cent is in commercial paper. In that case you only have commercial paper for half of the currency issued,with 50 per cent reserve in gold, and in the other case you have commercial paper for the whole face of the currency, with 33⅓ per cent.

Mr. CONANT. Yes; that is true.

Senator NELSON. Is not that really what it would amount to?

Mr. CONANT. If I understand you correctly it has 50 per cent gold and 50 per cent commercial paper.

Senator NELSON. In the one case you have certain commercial paper for the face value of the notes.

Mr. CONANT. Yes.

Senator NELSON. With 33⅓ per cent gold reserve?

Mr. CONANT. Oh, yes.

Senator NELSON. In your case, the last case you put, you have the new notes issued one half for commercial paper and the other half gold.

Mr. CONANT. I see your point. You mean, in a sense, there will be 133 per cent behind the notes under the Owen-Glass bill, 133 per cent as against 100?

Senator NELSON. Yes; either gold or commercial paper. In this case you will only have 100 per cent.

Mr. CONANT. I see your point. I think the answer to that is on the commercial paper you receive you would not necessarily lend up to par on it. I do not think that is the provision of the bill in that respect. In so far as you would make a loan to a borrower who carried it to a deposit account it would not affect the requirement of 33⅓ per cent against notes at all. Of course, if the man takes the funds away, that argument might possibly apply, but if they are transferred to the deposit account the reserve of 33⅓ per cent would still be required.

Senator NELSON. And if the bank put currency out the inference is if people apply for currency they want to use it and will take it away from the bank?

Mr. CONANT. Of course borrowers differ as to that. As a rule, the amount they borrow is transferred to the deposit account, and the bank would know the funds of that particular borrower would remain in its hands to the credit of the borrower's account until he needed it for wages or other purposes. I do not consider that would impair the security.

Senator NELSON. I do not say it would impair it; I say there would be that distinction between the paper issued under this bill and the paper issued under the plan you suggest. Under the bill you have in gold, legal tender, and in commercial paper 133 per cent.

Mr. CONANT. Yes; there is that difference.

Senator NELSON. And under your system you have in gold and commercial paper 100 per cent.

Mr. CONANT. Yes; there is a certain difference.

Senator NELSON. Of course the gold reserve is greater in the one case than in the other.

Mr. CONANT. Yes.

Senator HITCHCOCK. Mr. Conant, this morning you asked me for my authority for saying there was a limit upon the issue of notes by the Reichsbank, and I find it in this interview with Dr. von Glastnapp, vice president of the bank.

Mr. CONANT. What does he say?

Senator HITCHCOCK. The question is asked him, "Is there any limitation upon the amount of note issue?" The answer is, "Yes; it must not be greater than three times the amount of gold in coin, and gold bullion, silver, copper and nickel, and Government notes held by the bank; and, furthermore, all notes issued in excess of the gold coin and gold bullion, silver, copper and nickel, and Government notes must be covered by bills discounted."

Mr. CONANT. Notes issued upon gold are not subject to limitation. They may issue certain uncovered notes, but it must not exceed three times the reserve.

Senator HITCHCOCK. I would call that a limitation.

Mr. CONANT. If you are discussing a proportional reserve as a limitation, but I thought you were discussing the ratio of gold to reserves.

Senator HITCHCOCK. In this case the percentage is arbitrary.

Mr. CONANT. But it is never reached. It is really no obstacle. I did not suppose you referred to the ratio of limitation; I thought you referred to an absolute limitation.

Senator HITCHCOCK. The Reichsbank can issue notes to the extent it holds gold or silver or other coin.

Mr. CONANT. I think under the law of 1911 they have limited that to gold.

Senator HITCHCOCK. We will say gold, then. It can issue notes to the extent it holds Government paper loans.

Mr. CONANT. No; I think not.

Senator HITCHCOCK. Yes.

Mr. CONANT. You mean as part of its assets?

Senator HITCHCOCK. Yes; as part of its assets. It can issue above the notes to the extent of what they call their "kontingent."

Mr. CONANT. No; the kontingent is just an arbitrary limit. At present the kontingent is 550,000,000 marks. That may be increased to 750,000,000 marks, for the week ending each quarter. In addition to that, against that, they hold 33 per cent. Above that, they may issue any amount on gold, but are not allowed to issue more currency without tax, unless they pay a 5 per cent tax. It is rather complicated. You see, there are three different propositions. The kontingent, of course, is always far exceeded. The kontingent is 550,000,000 marks. The actual issues show a billion and a half, a billion more of gold.

Senator HITCHCOCK. I think it is stated here in rather a clearer way, "What notes of the Reichsbank are taxed?" And the answer is:

> Notes issued in excess of the aggregate of the following items: First, the amount of gold bullion and specie—gold, silver, copper, and nickel—held by the bank; second, the amount of Government notes so held; third, the amount of uncovered notes authorized by law (the kontingent), 472,000,000 marks; fourth, the amount of notes of other banks held by the Reichsbank.

Everything above that is taxed 5 per cent.

Mr. CONANT. Yes; that is it.

Senator NELSON. Which is the German system.

Senator HITCHCOCK. Yes.

Mr. CONANT. The kontingent has been increased to 550,000,000 marks.

Senator O'GORMAN. Mr. Conant, what would you consider the most important feature of this proposed currency legislation?

Mr. CONANT. Well, the two features of greater elasticity of the note issue and the concentration of reserves for the purpose of protecting the gold of the country.

Senator O'GORMAN. You consider those the most important?

Mr. CONANT. I consider those the two most fundamental things. Of course, there are other things that are important.

Senator O'GORMAN. I gathered from the remarks you made this morning that you considered the rediscount feature the most important.

Mr. CONANT. That is a corollary of the system, of course.

Senator O'GORMAN. Is there anything novel in this rediscount feature?

Mr. CONANT. It is not much used in this country, but, I think, if it was made easier, it would be used more or less. At present there is a little prejudice here, but it is used universally in Europe.

Senator O'GORMAN. It is used here among the banks?

Mr. CONANT. Yes.

Senator O'GORMAN. The principle of the rediscount is largely the basis of the Aldrich-Vreeland bill now in force. Is not that so?

Mr. CONANT. Yes.

Senator O'GORMAN. Is that existing provision ample for the purpose?

Mr. CONANT. The provision of the Aldrich-Vreeland bill?

Senator O'GORMAN. Yes.

Mr. CONANT. It is rather costly and complicated, and thus far the banks show a decided indisposition to go into it.

Senator WEEKS. Has there been any occasion for them to go into it?

Mr. CONANT. No; no real crisis. Of course, it is desirable you should have a system they would avail themselves of before the crisis became a crisis.

Senator O'GORMAN. Of course, it is understood that the benefits of the Aldrich-Vreeland bill are to be invoked only in times of stress or emergency?

Mr. CONANT. In times of more or less monetary stress.

Senator O'GORMAN. We have not had such a period since the bill went into force?

Mr. CONANT. No; no real monetary stress.

Senator O'GORMAN. In your judgment, would that be ample protection in times of stress—a bill such as the existing bill, or a similar bill with slight modifications?

Mr. CONANT. No; I would say not. It would afford a certain degree of elasticity in our crop-moving season, but it does not afford any mechanism for protecting the gold stock. That is entirely lacking, I believe, in the Aldrich-Vreeland bill to which you referred.

Senator O'GORMAN. I am directing your attention only to what I understood you to say was, perhaps, the greatest features, the best features of the contemplated bill, and that is the ability to rediscount.

Mr. CONANT. Yes; it is important, but you must have a means——

Senator O'GORMAN (interposing). I am only comparing both bills with respect to that one point—the right to rediscount.

Mr. CONANT. Of course, the Aldrich-Vreeland plan does offer a means of obtaining rediscounts and obtaining currency.

Senator O'GORMAN. Of course you will recognize that if the pending bill were adopted, it would give a facility to rediscount perhaps not offered by the Vreeland currency bill. In other words, it would be easier to secure discounts?

Mr. CONANT. Under the pending House bill.

Senator O'GORMAN. Under the pending bill.

Mr. CONANT. Yes.

Senator O'GORMAN. Well, would not that in itself present an element of danger? Would it be possible to avoid the dangers of inflation if you provided a system by which you made it easy to increase the volume of ready money for use in a business enterprise?

Mr. CONANT. I do not think it would be dangerous to increase those facilities beyond what they are to-day, or beyond what the Aldrich-

Vreeland bill provides, because the method of the Aldrich-Vreeland bill is very expensive.

Senator O'GORMAN. Is not that the very virtue of that bill? Does it not tend to prevent inflation? If you made it easier to secure money under the Aldrich-Vreeland currency bill, then would not this additional danger confront us, that with a greater ease in securing money you would have the accompanying menace of inflation?

Mr. CONANT. You have the accompanying opportunity for a little greater extension of credit, but I do not think that necessarily constitutes a menace. I understand the whole reason for the Aldrich-Vreeland bill and for this bill is that our present system offers no opportunity, practically, for expansion.

Senator O'GORMAN. You speak of the present system; are you limiting it to the currency bill?

Mr. CONANT. Yes; limiting it to the Aldrich-Vreeland bill. Under the existing system, under the Aldrich-Vreeland bill, our only means, practically, of increasing the currency is by production or importation of gold.

Senator O'GORMAN. I would like you (perhaps you have during the course of the day), as briefly as you can, to say why you think the rediscount privilege as embodied in the pending bill, has an advantage over the existing currency bill.

Mr. CONANT. Because, in the first place, it systematizes and makes legal the rediscount system, whereas the Aldrich-Vreeland bill is of such a character the banks have never yet seen fit to avail themselves of it.

Senator O'GORMAN. But you admit, as I understand, in that connection there has never been a period of stress in the life of the currency bill, which has been about four and one-half years?

Mr. CONANT. There was some stress last fall, in which this bill, had it been in force, or something like it, would probably have been availed of and money would have been a little easier. Of course, there are different schools of thought on that. England, since 1844, has been practically tied up from such expansion except such as was derived from the importation of gold into England. The result was that the act raised grave difficulties at first. England has gradually substituted a check system; but, in this country, where there are large areas of farm land, it is not suited to a check system. I think you need something more than currency to be used in grave emergencies, like the Aldrich-Vreeland bill provides, because the very fact that it is resorted to is a grave danger signal, as that bill stands.

Senator O'GORMAN. Don't you recognize if we had a law such as the Aldrich-Vreeland currency act in 1907, you would either not have had a panic at that time, or its effects would have been very much minimized?

Mr. CONANT. They would have been minimized. It is hard to say, of course, how far.

Senator O'GORMAN. Of course, you would not say that the adoption of this banking system, of the adoption of any banking system, will make panics impossible?

Mr. CONANT. I would not say that, exactly. I would say they should make panics impossible, but not periods of contraction. There has not been a panic in the principal European countries for many

years. There have been periods of contraction and depression, but there has been nothing since the Franco-Prussian War like the suspension of specie payments, for instance, because their banks look ahead and anticipate emergencies and soften the effects of the blow. You can not check over-extensions of credit, with the inevitable reaction, but you can alleviate the effects of the reaction, and that, I take it, is the purpose of all legislation.

Senator O'GORMAN. What was back of the Great Britain panic in the Baring failure in 1890?

Mr. CONANT. It was a panic that extended only to a small portion of England. A number of leading bankers got together and raised a big guaranty fund to protect the market. The Bank of England was fortunate in having a very strong man at its head in Mr. Lidderdale, and he took immediate measures to form a pool to take over the liabilities of the Barings.

Senator O'GORMAN. You mean to say at that time the English people did not have a period of depression or contraction?

Mr. CONANT. The condition of a panic?

Senator O'GORMAN. The condition of contraction.

Mr. CONANT. I think there was a little, but I do not think it reacted in England in 1890. The Baring failure, of course——

Senator O'GORMAN (interposing). The general impression is that the influence of the failure in England was reflected not only all over the Continent but in this country, and if the influence could be so great in other countries, the influence must have been much greater at home?

Mr. CONANT. In England, of course, it became necessary to restrict credits to some extent, but there was no such panic as occurred here. The measures taken, so far as the Baring failure itself was concerned, were effective in averting panic. I do not think the Baring failure was so much due to overextension at home as to investment in South American loans. There was some overextension, and there was some contraction of course required to counteract it.

Senator O'GORMAN. Having in mind the provisions of the Aldrich-Vreeland Currency Act, would you wish to be understood as stating that there is to-day an actual necessity for further currency legislation in this country?.

Mr. CONANT. Oh, yes; I should say so.

Senator O'GORMAN. And you think the necessity is more than met by the provisions of the pending bill?

Mr. CONANT. I think with some modifications of the bill, it is fairly well met. I would not say more than that.

Senator O'GORMAN. Do you believe, then, that this plan which you deem necessary involves the creation of 12 regional banks?

Mr. CONANT. No; I think the number should be much smaller.

Senator O'GORMAN. How much smaller?

Mr. CONANT. Personally I would like to see it limited to one. If that is impossible, I should say five or six.

Senator O'GORMAN. What would be your plan if it was limited to one?

Mr. CONANT. I think if it was limited to one, then it would be similar to the Bank of France, with a large power of note issue and a capacity for rediscount, and therefore the ability to aid the other

banks by such rediscount as they required to carry on their business. I suppose of course in this country, with its many small institutions, conditions would be somewhat different from those in France, where banking is now pretty well concentrated in the hands of a very small number of institutions with innumerable branches scattered over the Republic.

Senator O'GORMAN. What would be your judgment based upon your study and investigation?

Mr. CONANT. My judgment would be to provide for a single institution.

Senator O'GORMAN. You mean you would then concentrate in the reserve board provided for by this bill all the functions which are now distributed among the 12 reserve banks?

Mr. CONANT. I think, so far as they ought to be conferred, there are some of those powers to which I object. One of the powers to which I object would not be operative if we had but one institution. That is the authority of the board to compel one Federal reserve bank to rediscount for another. But, speaking broadly and without committing myself to all the details of the bill, I think a central institution, with the powers conferred on the Federal reserve board, would be the best solution.

Senator O'GORMAN. Suppose we had a Federal reserve board as provided for in this bill, allowing every member bank in the United States that desired to avail itself of the system to make certain contributions to the capital of this reserve board or bank, and then enjoy the advantage of having its discounts and the other advantages contemplated under this act with respect to member banks in the regional bank. Do you think that would be a better system than the one outlined by the bill?

Mr. CONANT. It would be somewhat better, I think.

Senator O'GORMAN. Will you state your reasons for believing that it would be better?

Mr. CONANT. There would be more concentration of power over the foreign exchanges, primarily. The concentration being greater, the resources of the central institution would be greater. I am a little afraid, under the bill as it stands, that the reserve resources of the country would be so split up——

Senator O'GORMAN (interposing). As among the different regional banks?

Mr. CONANT. Yes; that we should not be in anything like as strong a position as if we had one bank, or even five. Under the bill as it stands a bank must have $5,000,000 capital. The total capital of the banks in the country is in the neighborhood of a billion, and they pay 10 per cent, besides being liable to be called upon to pay another 10 per cent. If you split the first 10 per cent into 12 parts you get an average of $8,000,000. Probably the New York branch, and very likely the Chicago branch, too, would have more than $8,000,000. In my opinion the New York branch should have $25,000,000 at the very minimum, and better, $50,000,000. If you take that out and allow $15,000,000 or $20,000,000 to Chicago, you do not have much left for your other 10. And I do not think you need the other 10. But I have made the suggestion that the committee, if it adheres to the necessity of 12, provide that the Federal board start in in an ex-

perimental way with four or five, and not split the country up geographically to provide for every bank. In other words, that we let such banks come in as want to come in——

Senator O'Gorman (interposing). And, by the same process of reasoning, you would say that, as the whole matter is more or less problematical, it would be wiser to start with a single reserve bank, expanding that if it appeared later on to be desirable?

Mr. Conant. Of course, if you have a single reserve bank it would have power to establish branches.

Senator O'Gorman. Yes.

Mr. Conant. That, I think, is the preferable plan. You can start a single reserve bank without permitting banks all over the country to avail themselves of it directly. They could avail themselves of it indirectly through their correspondent banks.

Senator O'Gorman. As I understand, it is your judgment that, under the existing plan or any modification of it, it should be optional with the national banks whether they come in under the system.

Mr. Conant. I should think so; yes. The inducements to them should be increased——

Senator O'Gorman (interposing). And if we should have two or more regional banks it would be entirely optional with the officers of those regional banks as to whether they would lend aid from time to time to the other regional banks.

Mr. Conant. I should say so; yes.

Senator O'Gorman. You have noticed the feature of the bill which provides for the establishment of branch banks abroad?

Mr. Conant. Yes.

Senator O'Gorman. Have you expressed any view as to that matter?

Mr. Conant. No.

Senator O'Gorman. What is your judgment as to that?

Mr. Conant. It is very desirable that we should have a few branch banks abroad. I do not know how it would work out under this bill, but I take it there would be branch offices of the Federal reserve banks—perhaps not banks, strictly speaking—to deal in exchange in the leading European capitals; certainly in London, Paris, and Berlin.

Senator O'Gorman. Getting back to your previous suggestion, if I understand you correctly you have no doubt in your mind, based upon your study of banking and finance, that the establishment of a single bank under Government control would be preferable to the establishment of those regional banks with divided authority throughout the country.

Mr. Conant. I am inclined to think so, although if the number of regional banks were reduced the system would probably work pretty well.

Senator O'Gorman. You mean that if you reduced the number of regional banks that would be an improvement over the proposed system?

Mr. Conant. Yes; over the 12.

Senator O'GORMAN. But still not as desirable as having a single bank in Washington, under Government control, with its agents and with branches throughout the country?

Mr. CONANT. By "Government control" you mean there would be a board appointed in a manner similar to that provided in this bill?

Senator O'GORMAN. As this bill contemplates.

Mr. CONANT. You do not mean Government ownership——

Senator O'GORMAN (interposing). A board appointed by the President, as this bill contemplates, plus an advisory council representing the views and the interests of the bankers of the country.

Mr. CONANT. Yes; I think a single institution would be preferable on the whole.

Senator NELSON. And giving this board the same control over the central bank as they would have under this system proposed in the bill, so it would protect the public against the so-called money power. That is the idea in your mind, Senator O'Gorman?

Senator O'GORMAN. The idea that I wished to convey to the witness in asking his views as to the apparent advantages of a single reserve board and a system of 12 banks, as contemplated by this bill—my understanding is that if there were a single bank, a single reserve board, that reserve board would exercise the same power and functions that it is contemplated here it will exercise if there should be 12 regional banks.

Senator NELSON. I understand.

Senator WEEKS. Mr. Conant, would not that proposition which Senator O'Gorman has just been advancing obviate most of the criticisms of the central reserve board which have been made?

Mr. CONANT. I understand he leaves the central reserve board as constituted.

Senator WEEKS. True; but the powers of the central reserve board are very generally excessive.

Mr. CONANT. Yes; if you remove those objections, certainly. The question of dictating by the Federal reserve board to a bank——

Senator NELSON (interposing). Would it not solve another question too—the difficulty of distributing Government moneys? You would only have one place to put them.

Mr. CONANT. I do not think that is a very serious difficulty.

Senator WEEKS. I want to ask you one more question. I think I understood you correctly in saying that you thought there should be no limitation on the amount of circulation that should be issued?

Mr. CONANT. No arbitrary limitation.

Senator WEEKS. Technically I am entirely in agreement with you on that, but do you think that under our system of banks—25,000 of them scattered throughout the country with very many men in control of banks who have not a broad business training or broad banking training—that it will be advisable to report this bill without a limitation on the amount of circulation that a bank can take out? I do not mean the total amount in the country of currency of $800,000,000; I mean the ratio to the capital of the bank.

Mr. CONANT. I should think that would be rather a prudent thing to do. Of course, the argument for that, I suppose, was that the bigger banks might have bills from all over the country and might desire to take a good deal more than their capital, based on first-class

paper. I do not think it of such vital importance whether you have a limitation of that kind, because I assume the Federal reserve board is not going to deal directly with little banks at all with respect to their requirements.

Senator WEEKS. Is it not true that the reserve board is going to control the amount of paper which should be issued at all times?

Mr. CONANT. Yes; it is going to exercise a certain control.

Senator WEEKS. Would it not exercise absolute control?

Mr. CONANT. I take it the Federal reserve banks will always carry an excess reserve; that is their business.

Senator WEEKS. The amount of excess circulation that could be issued? Suppose you require 50 per cent. The banks will not deposit 50 per cent reserve and take out circulation unless they need circulation.

Mr. CONANT. I should say not. I should say, however, that if the banks are to come in generally, and especially if they are to apply directly to the Federal reserve banks for notes, there should be a tax imposed, and the authority is given in the bill to impose a tax.

Senator WEEKS. I want to ask you if you know any reason for issuing a Treasury note for circulation, other than the supposed sentiment among very many people throughout the country that the Government should issue money for circulation or whatever is in circulation.

Mr. CONANT. No; if we had one single central bank I should say that preeminently the circulation should be issued by that institution. Under this system of Federal reserve banks there may be something to be said in favor of putting the Government credit upon the uniform issue. Personally, I should prefer that the banks should issue it and that the Government should not be behind it, but, as I said, it has become more or less an academic question in my mind.

Senator WEEKS. Don't you think the single bank has another strong and extremely important justification in that if you have one bank you are going to have the same rediscount rate throughout the country?

Mr. CONANT. I am not sure just how that would work out. You can not, of course, reduce the rate for the loan of capital to a common rate, except, perhaps, for the very best security.

Senator WEEKS. I mean for limited security.

Mr. CONANT. For gilt-edge commercial paper, whether issued in Arkansas, or in Maine, or in Massachusetts, that would sell to a New York bank the rate could be made the same; but I would not give the idea that the general rate on loans could be made uniform.

Senator WEEKS. Of course, but why could not the bank in Arkansas, having paper that came within the requirements of the loan, obtain rediscount at the same rate that the bank in New York does?

Mr. CONANT. They probably should; but, as a matter of fact, I think they would find it much easier to discount their paper with one of their correspondent banks, provided it is the right kind of paper.

Senator WEEKS. Yes; but that is supposing you have the right kind of paper. It is proposed in this bill that these different reserve banks shall have a different rediscount rate. In other words, one section of the country is going to have an advantage over another section. It is not national, it is local in its results, and I contend

that the banks in the developing sections of the West and South having paper that comes within the requirements of the loan should have exactly the same privilege as the bank in New York City.

Mr. CONANT. I suppose the motive which led to putting that provision in the bill was the feeling that if you have a uniform rate and it is lower in certain sections than the usual commercial rate, those sections will avail themselves to the utmost of their rediscounting power.

Senator WEEKS. But you are going to limit them in some proper way, and why should we not try to bring down the interest rate if we can?

Mr. CONANT. You should, and that would be the ultimate tendency; and I think, so far as paper of the right quality is concerned, the rate could be made uniform.

Senator WEEKS. Would not that tend to make people make paper of the right quality?

Mr. CONANT. As fas as they could, of course.

Senator HITCHCOCK. Mr. Conant, a few moments ago you said the only limitation upon the note issue of the German Imperial Bank was its reserve; that is, it must maintain a reserve of 33 per cent. Do you think that is safe?

Mr. CONANT. No; I should prefer a larger reserve. As a matter of fact, the German bank has a vastly larger reserve.

Senator HITCHCOCK. As a matter of fact, have there not been periods of inflation in Germany under the present organization followed by periods of depression which have involved great commercial losses?

Mr. CONANT. Undoubtedly that has been the case, but they have never reached the point of panic.

Senator HITCHCOCK. That has even occurred in France and in England where the note issue is very much restricted.

Mr. CONANT. I do not think the conclusion follows that that relates to the currency policy particularly.

Senator HITCHCOCK. It may not, but the fact is, Germany is one of the there countries of Europe that we generally contemplate as having a central bank having no power of note issue, and that there have been in recent years periods of inflation followed by periods of depression in Germany. Is it not a fact that this bill appears to be drawn upon the same lines? That is, the only limit upon the power of note issue is the reserve of 33⅓ per cent which the banks are required to carry.

Mr. CONANT. Of course, the note issue is only a factor——

Senator HITCHCOCK (interposing). Is there any other limitation in the bill except the reserve of 33⅓ per cent?

Mr. CONANT. I believe not, but I assume that the Federal reserve banks will always carry a much larger reserve.

Senator HITCHCOCK. We are not talking about assumptions, and I am trying to obtain from you the verification of my impression that in Germany, where the only limit is the 33⅓ per cent gold reserve, it is perfectly inadequate to avoid periods of inflation followed by periods of depression and consequent loss.

Mr. CONANT. I do not think that follows, Senator, for this reason: The Imperial Bank of Germany has not in recent years had a

reserve as low as anything like 33⅓ per cent. You know many of the banks in Europe have no reserve requirement, but they always keep a reserve much larger than our requirements. I do not think it is proper to assume that cuts any figure in the matter.

Senator HITCHCOCK. The interviews we have had here indicate that they have been down to 30 per cent several times.

Mr. CONANT. I do not think that is a 30 per cent metallic reserve against outstanding notes——

Senator HITCHCOCK (interposing). No; there have been a number of times when the Imperial bank has got down to 30 per cent, and those have been the periods of excessive extension of credit.

Mr. CONANT. You see, their usual circulation——

Senator HITCHCOCK (interposing). And they have been followed by a pronounced depression, such as we have had in this country, and large industrial and commercial losses.

Mr. CONANT. I can hardly believe you are right as to that statement about the percentage of lawful money against notes. I shall look it up, but my impression is that the metallic reserve so called has for a very long time, even in periods of stress, been very much above 30 per cent; because, you see, the contingent circulation against which the 33⅓ per cent is required, is ony 550,000,000 marks, against which 33⅓ per cent would be only about 200,000,000 marks, or $50,000,000. Now, superimposed upon that at all times there has been 1,000,000,000 marks secured by gold in full.

I can not conceive, from my knowledge of mathematics, how it can be that they have been down to 30 per cent. I think that must refer to the margin of uncovered notes, or some feature of the deposit system. You know they are always talking about the limit of issues which they can make without paying the tax, and I think you will find the 30 per cent has some relation to that, although I can not say precisely without looking it up.

Senator HITCHCOCK. In the Interviews on the Banking and Currency Systems of Europe, I read:

Q. Your cash reserves were very close to your line of limitation?—A. It was about 41.3 per cent.

Q. Was that exceptional, or had it at any time been lower?—A. That is a very great exception; it has only been lower at one time, namely, at the end of 1906 when it was 40.3 per cent.

This is away back in 1907, and I have not the figures in here to show it was lower, but my impression is it has been below 40 per cent, and that they have reached the straining point a number of times when they have been forced to raise the interest rate very high.

Mr. CONANT. That is true, but I do not think the metallic reserve has been much below 40 per cent.

Senator HITCHCOCK. However that is, they have had periods of great inflation followed by periods of depression and loss.

Mr. CONANT. The inflation I should not attribute primarily to the note issue, because, you see, that is taxed 5 per cent over and above what is covered by gold. In other words, I think you are singling out a single cause where there are a great many causes, and this is a comparatively negligible one. Of course, any country goes through periods of expansion, and you can have great expansion without any power of note issue. Of course, note issue facilitates expansion.

Senator HITCHCOCK. On the other hand, the Bank of France at the present time has 85 per cent gold reserve against its notes.

Mr. CONANT. Eighty-five per cent gold or metallic?

Senator HITCHCOCK. "Metallic" is more accurate, but they are getting rid of their silver part of it. And the Bank of England has one that is possibly even larger; that is, all but $90,000,000 is gold, dollar for dollar.

Mr. CONANT. If you asked me whether I considered 33⅓ per cent adequate, I should say no. It should be at least 40 with a tax on impairment. I think the suggestion of the bankers at their conference in Chicago is not bad——

Senator O'GORMAN (interposing). Speaking of the recommendations of the bankers at their conference in Chicago, have you read their report on this bill?

Mr. CONANT. Yes.

Senator O'GORMAN. You are familiar with it?

Mr. CONANT. Yes; generally

Senator O'GORMAN. Do you indorse the views of that conference in criticism of this bill?

Mr. CONANT. In the main; not in every detail. But the points they criticize, I think, are the ones most subject to criticism.

Senator O'GORMAN. In some statement you made you seemed to have a distinction in your mind between "period of depression and "panic." What is the distinction?

Mr. CONANT. There is a great distinction. A period of depression comes about only because, as you and Senator Hitchcock suggested, credit has been strained and they begin curtailing loans and stopping investments in new enterprises. But there never has been in leading European countries in recent years a panic in the sense that men who needed help and had good security could not get accommodations.

Senator O'GORMAN. Do you remember the time of the Hooley failure in England—9 or 10 years ago?

Mr. CONANT. Yes.

Senator O'GORMAN. Do you remember the disturbance that followed that?

Mr. CONANT. I think that was more in the nature of a stock-market flurry.

Senator O'GORMAN. It began that way.

Mr. CONANT. Of course, you will occasionally get a panic in some wildcat securities, but the kind of panic I refer to is a general commercial panic where sound people are deprived of credit.

Senator O'GORMAN. Would you say that the financial disturbance we had in 1907 in this country was a panic?

Mr. CONANT. Yes; I should call that a panic, because it affected every business man in the country almost. He could not get currency and his usual accommodation. I should not call it a panic had the banks not suspended and had there been a slow and gradual contraction.

Senator NELSON. Was not the primary cause of that panic bad banking practices rather than a contraction of the currency?

Mr. CONANT. To a certain extent.

Senator NELSON. And unduly granting credits by banks, trust companies, and many other institutions. Was not that the primary cause?

Mr. CONANT. Yes.

Senator NELSON. So you can not lay the cause of it to our currency?

Mr. CONANT. No; not strictly speaking.

Senator NELSON. You can say this, can you not, that the bankers had set the fire going by bad banking, and if we had had an emergency currency they could have put the fire out more easily?

Mr. CONANT. Let me amplify that. Bad banking is not done on the initiative of the bankers generally. There are cases undoubtedly where the banker takes the initiative, but ordinarily the bad banking comes from clients who ask for loans to invest in enterprises which are not successful.

In reply to your suggestion that the trouble was not due to the currency system I would agree with you to a large extent, but the currency system was the cause of the panic, although not, perhaps, of the conditions which induced the panic.

Senator NELSON. That is what I mean.

Senator O'GORMAN. Is it not a fact that for a couple of years before the disturbance of 1907 the currency was very expanded? It was a period of inflation?

Mr. CONANT. Yes; that is true.

Senator O'GORMAN. And that one of the great causes, if not the real cause, of the disturbance that year was the inflation which preceded it?

Mr. CONANT. The inflation of credit.

Senator O'GORMAN. The inflation of credit, and the expansion of enterprise.

Senator NELSON. We were never more prosperous in the West, and a large proportion of our small country banks never suspended.

Senator SHAFROTH. During the panic of 1907 there was no run on the gold reserve of the Federal Treasury, was there?

Mr. CONANT. Oh, none whatever. On the contrary, we were importing gold. We imported $100,000,000 of gold, and we had to pay for it.

Senator O'GORMAN. Returning to the question of the emergency act—the Aldrich-Vreeland Emergency Act—with your experience in banking and currency, do you think you would have much difficulty in taking that act, and, with certain changes which could readily be made, supply what you conceive to be the existing defects in our banking system?

Mr. CONANT. The Aldrich-Vreeland Act, whatever its merits or demerits, is a very incomplete solution of the problem. It might give us the elasticity, if the banks saw fit to avail themselves of it, to tide us over a crop-moving season, but I think it provides no means for protecting against a foreign drain of gold. It simply provides, as I recall, that currency associations may obtain additional currency under certain conditions.

Senator O'GORMAN. And those currency associations have been organized.

Mr. CONANT. Yes; I know they have been organized, but they have taken no further action.

Senator O'GORMAN. Because the necessity has not arisen.

Mr. CONANT. I should say, because of the cumbersomeness of the act. If it had been a flexible act and the banks had not run the risk of seeming to show the white feather, they would have done something last fall. In Canada an act was passed of a similar character, but a little more elastic, and the banks have taken advantage of it every autumn.

Senator HITCHCOCK. I find here in this volume giving the German banking inquiry of 1908 that the specie cover did drop at one time to 37.3 per cent.

Mr. CONANT. What year was that?

Senator HITCHCOCK. 1907; so that is getting down pretty near to the breaking point.

Senator SHAFROTH. Is not the objection that has been made to the Aldrich-Vreeland Act that the banks would not permit inspections, and that they did not join in the associations and become responsible for the currency which was issued to any bank applying?

Mr. CONANT. There probably has been a little feeling of that sort, especially by the larger banks toward the smaller ones. The currency associations were organized, as suggested by the Senator from New York, but largely, I understand, at the urgent request of the Secretary of the Treasury, and not because of any great enthusiasm on the part of the banks. As far as the matter of inspection goes, that spirit has been growing among the banks in the cities of late. A half dozen cities have established systems of clearing-house inspections——

Senator SHAFROTH. Inspections under their own control?

Mr. CONANT. Yes.

Senator SHAFROTH. Was there not also a feeling upon the part of the banks that they did not want to apply for currency under the Aldrich-Vreeland bill because it would be an indication to the public that they were in failing circumstances?

Mr. CONANT. That is just the reason, I think, or one of the principal reasons that they have not been disposed to apply.

Senator O'GORMAN. Do you not think that if a condition of acute disturbance arose they would not hesitate to avail themselves of its provisions?

Mr. CONANT. Oh, I think that is probably true, that if the situation became very acute—of course, the proposition of the Owen-Glass bill and other similar measures is to prevent its becoming too acute. We do not want to wait until we have suspended payments before we have some measure of relief. How quickly the banks will avail themselves of this in case of an acute stringency is a matter of prophecy. I believe they would do it in an ultimate crisis, but how much before is a question that nobody can determine, I think, at present.

Senator HOLLIS. It would depend largely on the extent of the rivalry between the banks in the community where the association existed. It is not a very complete measure and yet I have always believed that if that bill had been on the statute books in 1907 the currency features of our panic would have been eliminated.

Senator O'GORMAN. Is that your judgment?

Mr. CONANT. I think it is very probable that they would not have had to suspend currency payments.

Senator NELSON. Mr. Conant, there is no acute condition now as to the scarcity of currency. The Treasury Department set aside $50,000,000 to supply country banks for moving the crops. Of that $50,000,000 they assigned $3,000,000 to Minnesota, $2,500,000 to the banks in the Twin Cities, and a half million to Duluth.

We have just had the biggest crop of wheat we have ever had in Minnesota. We have received upward of $2,000,000 worth of wheat and other small grain a day in Minneapolis, and yet of that money the Twin City banks have not taken a penny. Only the banks of Duluth have taken, I think, $450,000 or $500,000 out of the $3,000,000 that was assigned to Minnesota. That shows that the country is in a good healthy condition, and that there is no immediate urgency for any special currency.

Senator O'GORMAN. Is that your judgment, Mr. Conant?

Mr. CONANT. Certainly, there is no emergency at the present moment, but of course this bill could not be made operative for any pressure this autumn. It would take months to put the machinery in operation.

Senator O'GORMAN. I think it is realized it would take at least a year to perfect the system under this bill.

Senator NELSON. And after you start out it will be another year before we can see the workings of it.

Mr. CONANT. That is why I think you should proceed cautiously in making it too mandatory.

Senator NELSON. How would it be to allow the reserve board to start with one single bank and give them the authority to extend the system as they see the necessities of the country demand it?

Senator HOLLIS. You would never have but one, because nobody would want it.

Senator NELSON. Mr. Conant has not answered the question.

Senator O'GORMAN. It is fair to Mr. Conant to say that he did answer that about 20 minutes ago when he said that if you had a single reserve bank in this city there would be no need for any other bank, because that bank would have its agents and its branches throughout the country.

Senator BRISTOW. Mr. Conant, if we had a central bank, governed by a board created exactly like this, with the same powers or similar powers, and the stock owned by private parties instead of by the bank, and let it be a Federal bank, it would then be similar to the Bank of France, would it not?

Mr. CONANT. Yes; very similar.

Senator BRISTOW. Now, any bank in the United States could be authorized to go to this bank and get relief when needed—rediscounts, etc. Now, it is your judgment, as I understand, that that would be a better system than the one that is proposed here?

Mr. CONANT. Well, I think theoretically so. I want to put myself in the position of dealing with actualities, though, and it is my theory that a single central bank would be preferable, but if that is not obtainable I think this system of regional banks with a proper limitation of the number would be practicable.

Senator O'GORMAN. You mean it would be better than the plan proposed by this bill?

Mr. CONANT. Yes.

Senator O'GORMAN. Better for the country, better for the commerce and prosperity of the people?

Mr. CONANT. Yes.

Senator NELSON. Ought we not to get the best when we are legislating?

Senator O'GORMAN. I think we are all in accord, even Senator Owen, on that proposition.

Senator NELSON. Don't you think we ought to get the best?

Mr. CONANT. Yes; but you can not always get the best in practical politics. [Laughter.]

Senator BRISTOW. What we want to find out is what your judgment of the best is and whether we can get it or not is for us to determine. That is up to us, if we know what the best is.

Now, the popular notion of a central bank in the United States is that it be one controlled by the bankers, and that the Government would have no supervision over it any more than it has over the banking system now through the Comptroller's office and his periodical examinations. The bank suggested here by Senator O'Gorman is entirely different from that suggested heretofore by any of these propositions, is it not?

Senator NELSON. Different from the Aldrich plan?

Mr. CONANT. Yes; in some measure.

Senator BRISTOW. Is it not very radically different?

Mr. CONANT. I should have to see more of the details of Senator O'Gorman's plan.

Senator O'GORMAN. The details are very simple: We simply appoint a reserve board, substantially as provided in the pending bill, giving the board all the powers that are conferred by this bill plus all the powers that are conferred upon the officers of the several regional banks and concentrate the powers of the 12 regional banks in the hands of the reserve board, making one central institution under Government control.

Mr. CONANT. Yes; it would be essentially different from the Aldrich plan in the more complete control by the Government.

Senator BRISTOW. That is all the objection to the Aldrich plan, that it was building up a money monopoly that was not controlled by the Government, but by private interests.

Mr. CONANT. I do not so interpret the Aldrich plan.

Senator BRISTOW. That was the interpretation the country put on it.

Mr. CONANT. I can readily appreciate the fact that we might go further in bringing it home to the country. I have no objection to the control proposed here, provided you have your advisory council in close touch with the governing board. I think, speaking of the details of the bill, that a few changes should be made. If that advisory council is retained it should be authorized to appoint an executive committee, and that executive committee should be authorized, I should say, to sit with the governing board. If it is not thought advisable for them to sit at all times let them sit at certain specified times. But there is no reason why the Federal board should not be perfectly willing to have the council sit at its meetings whenever they are held. I understand that is practically the system that prevails in Germany, and with competent men at the head there

would rarely be any friction. So I should say that the advisory council should be allowed to appoint an executive committee, say of three; that they should be permitted to receive pay, and they should be in constant touch with the Federal reserve board.

I object very strongly to a Federal reserve board which is up in the air, which is not in a position to keep in daily touch with what is being done in the New York market, etc., with a thousand and one things which it is not possible for a man to know about unless he is in touch with the people in the New York market, as well as the Chicago and New Orleans markets.

Senator BRISTOW. Do you think it would be better for the stock of this Federal bank—I will call it that—to be held by banks or by citizens?

Mr. CONANT. Personally I do not think it makes any particular difference. I do not care who holds the stock. In the first place, you put the control in the hands of the Government. The stockholders, whether bankers or private citizens, would elect this advisory committee, I assume.

You are discussing the question of a central Federal bank?

Senator BRISTOW. Yes.

Mr. CONANT. In that case, the stockholders would meet at least once a year——

Senator BRISTOW (interposing). And elect the advisory board.

Mr. CONANT. Yes; and I do not know that it would make any difference, from my point of view, who held the stock. If you want to make some safeguards against its being monopolized you can do that, but I do not think that danger is very serious.

Senator WEEKS. You can make a close corporation of it, which would limit the transfers of the stock under conditions that would prevent it.

Mr. CONANT. Oh, yes; you can make plenty of safeguards if they are necessary. I do not think they are really necessary.

Senator NELSON. I do not think you have expressed any opinion upon whether these notes should be redeemed in gold only or in gold or lawful money, as provided in the bill. Do you not think it would be better to have them redeemable in gold only?

Mr. CONANT. Probably it would. I do not consider that of so great importance now that our gold is so large a proportion of the total circulation. Of course, under the plan I have pointed out there would be redemption in gold, because you would have a 50 per cent gold reserve.

Senator NELSON. We have in this country now a little over 7,000 national banks, and something over 17,000 State banks and trust companies, banking institutions of various kinds, making in the aggregate 25,000 of all kinds of banks. Now, do you believe this system could be a success, I mean the system outlined in the bill, if the State banks and the loan and trust companies failed to join it?

Mr. CONANT. I have not examined that question very carefully.

Senator NELSON. If they in a body failed to join. It is optional with them. In case they should fail to join it, and a limited number of national banks declined to go in, do you believe we could make the system a success then under those conditions?

Mr. CONANT. So far as the joining of the State banks and trust companies is concerned, I do not think their actual joining is essen-

tial. I think they might be permitted to avail themselves of the rediscount privilege without becoming subscribers to the capital. The point was made here that the Federal reserve board might prescribe regulations which would be oppressive or would compel the State banks to be cast into a rut. I do not think that follows at all. Even though their soundness was of a different degree and based on a different class of business from the Federal banks, it is primarily necessary only that the paper they present is first-class paper——

Senator NELSON. Would not that be giving the State institutions an unconscionable advantage over the national banks? The national banks would have to contribute to the capital of the new bank, which would have to contribute to the reserves, and yet all they could get would be this discount privilege and the privilege of getting new currency——

Senator O'GORMAN (interposing). And the privilege of having their branches abroad also.

Senator NELSON. Yes; while the State banks could get all these benefits under the suggestion you made without incurring any other liabilities or making any contributions. Do you think that would be fair and just to the national banks?

Mr. CONANT. It depends, of course, on how you have the liabilities imposed upon the national bank by this bill. If they are repellant to them it would constitute discrimination. If they are attractive, then I do not think the discrimination could be claimed.

Referring to another point of your question, whether the system would be a success if only a part of the national banks came in, the answer must be that it would not if the capital is raised entirely from banks. If the capital can be raised by sale to the public, you may have a very successful start with only a part of the national banks in. You have to have adequate capital for your reserve association from some source, and then your little country bank can get its rediscounts, not by direct application to the Federal bank, but by going to its correspondent upon whom it has always relied, and it would there get its accommodation——

Senator O'GORMAN (interposing). Mr. Conant, what would be your judgment as to this modification of the bill—whether the plan contemplates a single Federal central bank or a reserve board plus 12 regional banks: Providing, in the first place, as the bill does now provide, that the banks will contribute the capital necessary to conduct either the central bank or the reserve banks, as the case may be; to confer the power, possibly on the Secretary of the Treasury or upon some other governmental functionary, to invite the public to contribute the capital, if he deems it necessary at any time, because of the unwillingness or lack of alacrity among the banks to enter?

Mr. CONANT. I think that would be a desirable provision.

Senator O'GORMAN. So there then would be provided two ways of supplying the capital.

Mr. CONANT. And that would permit to be carried out what I suggested this morning, after the establishment of the Federal reserve board to establish five or six Federal reserve banks at the beginning, with authority to increase the number as they see fit. It is not necessary for them to plot out the whole country and say to every bank, "You have got to join this Federal reserve association or this other one."

Senator O'GORMAN. I might say in this connection that that has seemed to me one of the great advantages, apart from many others, of the central bank. Of course, it is apparent now that if we passed this bill as it is there would be grave doubt as to whether certain of these 12 regional banks would have enough capital contributed by the national banks.

Mr. CONANT. There is very grave doubt.

Senator O'GORMAN. If we simply have a single reserve bank there can be no question about that one bank securing enough capital to operate at once.

Mr. CONANT. That is true.

Senator O'GORMAN. And to distribute its benefits and advantages to all the banks becoming a part of it.

Senator NELSON. And it would be a bank with a bigger capital than any other bank in the country.

Senator O'GORMAN. It would be the difference between one great governmental function and a small bank with small capital.

Senator BRISTOW. Then with the plan suggested by Senator O'Gorman, would it not be practicable for one banking institution to avail itself of the benefits of this Federal bank, whether it subscribed to the stock or not—let the subscription to the stock be absolutely a question of investment by the man or the institution that subscribes?

Mr. CONANT. Yes; I think that is practicable.

Senator BRISTOW. And let any banking concern, State or national, that is reputable and complies with a certain standard have the privileges of rediscount equally to all under similar circumstances.

Mr. CONANT. I think that is practicable. Of course, in Europe there is no restriction even to banks; individuals can go up and get rediscounts at the Bank of France or the Bank of Germany.

Senator BRISTOW. Why is not that a good thing?

Mr. CONANT. I think it is, only here the provision has been made—it was made by the Monetary Commission plan and by this plan—to limit it to the banks, I suppose, for the purpose of preventing competition.

Senator O'GORMAN. That is obviously the only reason for the distinction.

Mr. CONANT. The matter of admitting individuals, perhaps, is not so important.

Senator NELSON. We labor under this difficulty here, gentlemen: In Europe they were not confronted by this condition. We have over 7,000 banks of issue here based on Government bonds. If we had the decks clean—if all our banks were simply banks of discount and deposit—our problem would be simple, but we have these 7,000 banks with the right to issue currency based on Government bonds, and that complicates the problem.

Senator SHAFROTH. Mr. Conant, Senator Nelson asked you a question about whether this redemption of currency to be made by the reserve bank should be in gold or in lawful money. I agree perfectly that if it is to be made at Washington, or on a currency such as I have indicated, it should be gold, but under this Glass-Owen bill will not the effect of having the currency redeemable at these 12 regional banks be to create a competition with the Government in the getting of gold?

Mr. CONANT. No; I think there is gold enough.

Senator SHAFROTH. Then will it not have a tendency to make each one of these banks carry more gold than the National Government would carry for the whole number of banks?

Mr. CONANT. I do not know that I quite understand that proposition.

Senator SHAFROTH. I mean, that the fact of having 12 points of redemption, each bank being afraid that it may not have enough gold, would naturally tend to cause them to keep a greater reserve than 33⅓ per cent.

Mr. CONANT. I think they should keep 40 per cent, but I believe there is enough gold anyway.

Senator SHAFROTH. Some people think it ought to be 50 per cent, and some think it ought to be dollar for dollar. But will not that very fact that there are 12 of these banks preparing for any emergency make a greater drain on the existing gold than if it were all redeemable here in Washington by the Government alone and not at at the regional banks?

Mr. CONANT. Well, so far as its concentration is concerned, I would favor its concentration; but so far as the question whether this gold or lawful money shall be scattered in 12 districts is concerned, I do not think it is very important. The quantity of lawful money in the form of greenbacks is now restricted, and it is mostly split up in $1, $2, and $5 bills in general circulation. I do not think the competition for gold that you refer to would cut any figure in that.

Senator SHAFROTH. No. Now, will not the fact that this money is redeemable in lawful money at the banks in these regional districts make the banks act as a buffer, as it were, between the Government and the person demanding the gold in time of emergency?

Mr. CONANT. Perhaps; yes. I should think it ought to. It should be up to the banks to protect the gold stock.

Senator SHAFROTH. In other words, if there were $100,000,000 of gold only in the United States Treasury to redeem $100,000,000 of greenbacks, and then $100,000,000 of this currency issued under the Glass-Owen bill were out; if they were to take a $1,000 bill to the regional bank it could give them a greenback, and then they would have to take the greenback to Washington to get that redeemed in gold. The currency issued under the Glass-Owen bill, if they wanted to restrict it, could be held by the regional bank, and consequently when a man got a greenback and deposited it in the Treasury here they could hold that, and thereby, simply by paying out $1,000 in gold, practically redeem $2,000 of outstanding currency.

Mr. CONANT. Your theory is that the bank would then present it to the Treasury?

Senator SHAFROTH. No; my theory is that the individual presenting this $1,000 currency under this Glass-Owen bill to the bank, the bank would say, "We do not have to pay you gold; we will pay you this lawful money—a greenback." Then the bank, when it does that, takes this money issued under the Glass-Owen bill and puts it in its vault and says, "Now, if there is a drain on gold, we will not reissue that." Then the man that gets a $1,000 greenback goes to the Federal Treasury and says, "I want my gold." They say, "Certainly, here it is." And they keep up that $1,000 greenback and hold it

until after the time of stress. Would not that really give the Treasury the power to redeem $2,000 for $1,000 of gold?

Mr. CONANT. I do not know that I quite follow you. It does not occur to me that it is very important. Ordinarily, of course, a bank when it is called upon for currency does not have to pay gold unless a man says he wants gold. If a borrower comes in and says he wants $1,000 in currency and they have $1,000 there in greenbacks, they hand them to him.

Senator SHAFROTH. I think this feature is valuable only in times when they are making a raid on the gold reserve. By making this payment into the regional bank, the regional bank holding the currency and paying out $1,000 in greenbacks, and the man taking that to the Federal Treasury and getting his $1,000 in gold, you have impounded practically $2,000 in bills.

Mr. CONANT. I do not think it is a matter of very great practical importance. I should prefer that the bill said gold.

Senator SHAFROTH. I think it would act as a buffer against the raids upon the gold reserve of the Treasury.

Mr. CONANT. They would not have greenbacks enough in their reserve anyway. They are split up in small denominations.

Senator HOLLIS. Senator Shafroth seems to have a desire to make it difficult, under certain conditions, to redeem. Is it not one of the conditions of a good banking system that redemptions are obtained easily?

Mr. CONANT. Yes; especially——

Senator SHAFROTH (interposing). Do you think you ought to invite on the United States Treasury a raid on the gold, if it is done, not for commercial purposes, but for the purpose of the person taking it?

Senator HOLLIS. No; but the very fact that you do it for the express purpose of delaying redemption——

Senator SHAFROTH (interposing). You have had that all the time under the national banks, have you not?

Senator HOLLIS. Oh, yes; but I am not willing to indorse the national bank system to the extent——

Senator SHAFROTH (interposing). To that extent it has operated perfectly, has it not?

Senator REED. Has Mr. Conant finished? I do not want to interrupt this conversation, but I want to ask a question or two on other lines. I was going to ask some questions this morning and did not have time. I do not like to interrupt this colloquy, which was very interesting to me, but it is getting late.

The CHAIRMAN. The chair will remind the committee that there are several gentlemen here representing various western banks who are expecting to appear here to-morrow morning.

Senator REED. To-morrow we will be over in the Senate.

Senator O'GORMAN. Mr. Conant, notwithstanding your divided allegiance between Massachusetts and New York, as a New Yorker I feel that for the present I must protect you as far as I may. Personally, I think that the committee might very well refrain from holding you as a witness any longer to-day. You have sat here about seven hours and have given us very valuable information. Will you be in town to-morrow?

Mr. CONANT. Yes; I shall be able to be here to-morrow.

Senator O'GORMAN. Would you just as soon come in to-morrow and let Senator Reed and anyone else examine you further?

Mr. CONANT. Yes.

The CHAIRMAN. The chair notified these various bankers that they could be heard, and Wednesday was fixed to hear the Indiana bankers, Thursday to hear the Mississippi and Texas bankers, and Friday to hear the Dakota bankers. Whatever the committee sees fit to do about it the chairman will announce to these gentlemen.

Senator O'GORMAN. I suggest that, subject to other contingencies, we adjourn until half past 2 to-morrow and request Mr. Conant, if it is convenient, to come in at that time. He will not be detained long.

The CHAIRMAN. I have an article here presented by William Alden Smith, Senator from Michigan, in behalf of W. Alfred Owen Crozier, who wants to submit to the record his views on this bill. I have also some resolutions of Kentucky bankers. If there is no objection they will be incorporated in the record.

(The papers mentioned by the chairman follow:)

MEMORIAL SUBMITTED BY SENATOR WILLIAM ALDEN SMITH FOR W. ALFRED OWEN CROZIER, CINCINNATI, OHIO.

To the honorable Senate and House of Representatives of the United States:

GENTLEMEN: The undersigned respectfully petitions for your consideration of the following:

Your petitioner was invited by the Senate Committee on Banking and Currency to give his views on the banking and currency question, and by the House Committee on Banking and Currency to do the same, to which last committee the paper An Ideal Money Plan, attached hereto as Exhibit A, was presented about March 5, 1913. Various Members of the Congress at different times have made similar requests. Therefore, it seems proper that this analysis of suggested monetary plans should be ventured and the draft of a substitute bill, attached hereto as Exhibit B, respectfully presented for your consideration.

Public control of the public currency, demanded so courageously by the President and his advisers, is the chief thing for which your petitioner has been striving for the past seven years, on the platform, in the public press, in my two books on the subject, and before the platform committee of each national convention in 1912. For that reason I desire to be entirely just and even generous toward the pending currency bill and its supporters and in no way criticize them personally. They are sincere and patriotic, but some of them so far seem to have overloked certain things that will establish absolute private control of the public currency in most dangerous form if the so-called administration currency bill as now drawn becomes law.

The great need of constructive, progressive, patriotic, and practicable banking and currency reform is conceded. Early action is advisable. But it is better to be right than to rush through an undigested measure that may prove to be wrong and harmful. This is a new question to the people and somewhat complex, and the public should be given time to study and express their wishes thereon. December and the next session of Congress is only about three months away. Because this is a public matter of greater importance to the daily business welfare of all the people than any question of modern times, it should be discussed without partisanship, fear, or favor. While my views may be of little importance or value, they must under the circumstances be stated frankly and plainly.

THE ALDRICH PLAN.

The Aldrich plan proposed one central bank owned by the banks exclusively. It was to issue and regulate the volume of currency. This was to be corporation currency, not United States money. The central bank could have inflated and contracted at will its currency, made money scarce or plenty, raised and lowered its discount or interest rates, rediscounted or refused to do so for any

bank, all without any effective Government supervision or control. The 25,000 banks and the business borrowers of such banks all would have been at the mercy of the central bank for a supply of cash or credit. By increasing and decreasing its outstanding corporate currency and discount rate it easily could have measurably raised and lowered at its pleasure, for the profit of the private interests it would serve the prices of all securities, property, and human labor. If it desired a financial stringency or even a panic it was only necessary to suddenly and excessively contract its currency. This would quickly shrink the cash reserves of the banks and force the instant and wholesale calling in of bank loans to a sum aggregating 10 times such contraction of central bank currency. The sudden and general sacrifice of securities and commodities for money to pay up bank loans would of course wreck prices, demoralize trade and industry, paralyze labor, and perhaps cause panic and general ruin.

As central bank stock was to be owned exclusively by the banks according to size of capital stock, a group of the larger banks would have owned and run the central bank largely for the benefit of the great Wall Street interests that now own or control many of the big banks of the country. The Aldrich plan was originated by high finance and of course was for the benefit of high finance.

DANGEROUS POWERS MADE SAFE.

It is proper to say that these vast powers, so dangerous if they had been placed in private hands beyond recall for 50 years as Aldrich proposed, would be harmless and, in fact, beneficial to all the people, as well as the banks and business interests if the central bank was made an absolute Government institution, organized, safeguarded, and run in strict accordance with law, independent of partisan politics and Wall Street influences. Those powers can be used not only to cause panic but to prevent panics, to destroy or bestow general prosperity, by means of imparting a desired elasticity to the public currency, using genuine commercial paper as the chief security on which to loan the public funds. It is a life and death power over all banks and business and must be patriotically used.

If such a Government institution was given the dignity and safeguards of the Federal Supreme Court, no one doubts that its administration would be honest, efficient, and just to all interests and beneficial to all the people in the highest degree. Therefore the solution of this great and grave problem is not to avoid political control by abandoning Government control of the public currency and surrendering this Government function to the banks to be used for the profit of the few at the expense of the many, but the remedy is to organize, strengthen, and safeguard public control, so as to bar out both politics and high finance and insure business efficiency and scientific management without robbing the people and their Government of all control over their public money supply.

BANK CONTROL MEANS DANGEROUS POLITICS.

Turning control of the public currency and the regulation of banks over to the banks themselves by no means would take the question out of partisan politics. It is the surest way to put it into politics and keep it there in most dangerous form. That was the result in the time of Andrew Jackson, and the country was plunged into a wild and desperate panic before the second central bank and private control of the public currency was abolished and high finance driven out of politics.

It was the same with the first private central bank, and caused Thomas Jefferson to say that a private bank issuing public currency was more dangerous to the liberties of the people than a standing army. To protect and preserve permanently the enormous power and rich profits that would now go with private control of the public currency, most of the 25,000 banks would be organized into an intangible, invisible, active, and invincible nation-wide political machine with its itching and crushing tentacles in every congressional district ready and able to politically destroy any candidate of any party who would not in binding form in advance secretly barter away the welfare of the public to the powers of privilege. Every predatory interest woud be allied with this machine that would be financed and run by Wall Street. Money in elections would be its instrument and corruption its effective road to success. Every political party would be prostituted or crushed. Through forms of law the

Government would be used to make the people political and financial bond slaves of the lustful greed of an organized and merciless financial power such as the world as yet has never seen.

The final result, of course, would be a political upheaval or revolution that would end in abolition of the system and perhaps the right of private property and the obligation of contracts—State socialism. The only way to avoid that end in this country is for men of wealth and power to stop trying to destroy democracy in favor of a money aristocracy and help purify and strengthen the agencies of republican Government to make them more efficient, impartial, and beneficent for all the people, without discrimination or favoritism.

UNITED STATES MONETARY COUNCIL.

These were the moving thoughts back of the plan suggested in the pamphlet. An Ideal Money System, presented on March 5, 1913, to the House Committee on Banking and Currency, a copy of which I inclose as part of this review. The United States monetary council therein suggested, and the reorganization of the country's money supply proposed, I believe to be the only practicable method by which this question can be permanently and scientifically settled. Perhaps all we now can get is another temporary makeshift, an improvement but not a cure, but some time the plan therein set forth, or some modification thereof, will be adopted. Until that is done we will grope in monetary darkness, stumbling over dangerous and unscientific financial pitfalls, our trade and commerce at the mercy of foreign finance, our Government legally bound to provide billions of actual gold with no effective means for obtaining the same, or providing itself and American business with an adequate and impregnable monetary defense. Has the great American people the wisdom and courage to grapple with and solve the most important question of modern times and to settle it right? We soon will know.

ADMINISTRATION CURRENCY BILL.

The so-called administration currency bill would create a dozen or more central banks instead of one, regional banks all owned exclusively by the same banks that would have owned the Aldrich central bank. The banks, of course, will control the Federal banks that they will own, because they choose two-thirds of the nine directors, three being selected by the Federal reserve board. The three will have a restraining influence through publicity and appeal to the Federal board but no power of control or decision as against united action by the six bank representatives. In law and in fact each Federal reserve bank will be a regional central bank, a private corporation owned and absolutely controlled by the banks associated therein.

The limitation of dividends to 5 per cent and paying to the Government all other profits after a 20 per cent surplus has been accumulated out of profits may be thought to guard against the use of Federal banks to gain excessive profits and power for the benefit of the subsidiary banks, and also insure the Government a large revenue from this source. This expectation is more apparent than real. If the Federal bank and not the Federal board fixes its rate for rediscounting for its constituent banks and does not reduce its rate or charge so as to leave all excess profits in the pockets of the banks instead of accumulating them in the Federal bank treasury at the expense of its banks, to be paid over into the public Treasury, it will be a surprising exhibition of corporate philanthropy or patriotism, indicating that no longer can it truthfully be said that a corporation has no soul. If the bill is amended as demanded by the banks to prohibit the payment of interest for currency and Government funds deposited in or advanced to Federal banks, and the Federal banks regulate the discount rate, there is no certainty that the Government will realize a dollar, and yet it is to provide the machinery, grant great privileges and powers by law and supervise the whole system, turning over to such private central banks for deposit as received all public revenues, aggregating three-fourths of a billion dollars annually, and also printing and supplying to such banks Government currency to the extent of a half billion, and possibly more than a billion dollars.

If 5 per cent is a reasonable profit for the banks as dividends on their Federal bank stock, why should the banks own the 20 per cent surplus to be created out of excess profits? It is proper to create a 20 per cent guaranty fund to insure regular 5 per cent dividends and meet possible losses. But as

most of the profits of Federal banks will be made by use of public revenues and currency, such excess profits in the event of a repeal of the system or liquidation should go to the Government and not to the banks.

For 50 years the banks have insisted that the Government print all the money and then turn it over to the banks free or subject to a nominal tax, the banks, instead of the Government, getting the profits made with this vast volume of public currency. The divine right of the banks to rule the public currency, or at least to annex the profits that otherwise might taint the Public Treasury and put into the heads of the people the idea that the banks should pay the Government a fair price for the use of public currency, is stoutly asserted by the banks. If the banks were charged a fair and reasonable price for the currency and public moneys, a new and important source of public revenue would be opened up and relieve the people of considerable tax burden without injustice to the banks. Two-thirds of the entire national debt now could be paid with the money the banks would have paid into the Federal Treasury if the little bill repealing the annual tax of a half of 1 per cent on bank deposits and capital had not been lobbied through Congress at the instance of the big banks in 1882. This wholly relieved national banks from all Federal taxation on their capital, assets, or valuable franchises. It robbed the Public Treasury of more than half a billion of dollars. The fact that the 25,000 national and State banks, with capital stock aggregating but $2,000,000,000, are through a legalized inflation of bank credit enabled to steadily collect interest profits on about $25,000,000,000, shows that bank franchises and exclusive privileges granted by law are of great value, and should bear some reasonable share of the public burden and the cost of maintaining the Federal Government. This is a good time to establish a business "square deal" between the banks and the Government in matters of of this kind.

No honest man desires in any way to deprive banks of their just rights or harm their legitimate interests. But if they desire justice, they must be willing to do justice. If the banks will meet the people, through their Government, half way in an unselfish attempt to devise a progressive and scientific monetary system, fair to everybody, the whole problem can be solved and all matters agreed upon amicably in 30 days. All but the big banks dominated by Wall Street I believe will do so, for most of them are patriotic. The result would be the greatest and strongest and most profitable banking system in the world, serving and promoting general prosperity and enabling American trade and commerce, with the backing of our banks and Government, to win the markets of the world for the products of our factories and the fruits of our soil.

FEDERAL RESERVE BOARD.

The redeeming feature of the administration's bill is the Federal reserve board. It provides for absolute public control. Four of the seven members are appointed by the President with the advice of the Senate, the others being Secretary of the Treasury, Secretary of Agriculture, and Comptroller of the Currency, all presidential appointees.

The cry of politics by the banks has much to justify their fears. Some future administration, struggling to retain power, may attempt improperly to use for partisan purposes the vast power the Federal board will have over the 25,000 banks and the central Federal banks and through the banks over all business. The worst thing is that such action would inflame the country and cause repeal of the system by Congress, and we then would be back where we are now—in banking and monetary chaos.

The weakness of this bank cry is the substitute they demand, a larger bank control of the public currency would be worse than political control. Both of these evils can easily be avoided.

The greatest danger is that a small Government board appointed by the President some time may mean Wall Street control through politics. Is it not possible that some future candidate of some party for the Presidency may win through the secret support of Wall Street and the banks obtained by party committees in the heat of a campaign binding the candidate if elected to appoint certain named persons satisfactory to high finance as members of the Federal reserve board? Those are the methods of "invisible government." This danger would be greatly reduced if such board has 15 instead of 7 members. But I believe the only way to completly bar out partisan politics and Wall Street and thus make the system permanent as well as safe and efficient, is to ultimately create a new coordinate branch of the Government, a United

States monetary congress, with supreme and exclusive power over all matters of banking and currency, the membership to be reasonably large and widely distributed, two-thirds being elected by the people, one from each State, the balance appointed by the President with the advice of the Senate. A body so chosen would be most conservative and safe, the members checking and balancing each other. The monetary congress meeting once a year would choose the United States monetary council as its board of managers of 16 to conduct from day to day the business of the council, employing to advise them financial experts of the highest standing.

If the banks could be made to realize the value of having this question settled permanently they would join in this plan and help to properly safeguard it; for in these progressive times the only way to satisfy the people is to give them a voice in choosing those who are to regulate their public money supply, the life agent of all their business and activities.

REGIONAL CENTRAL BANK PLAN.

The more the plan for a dozen Federal reserve banks, or regional central banks, all owned and run by the banks is studied the less it commends itself as a wise or safe solution of our banking and currency troubles. Would it not be a long step in the wrong direction?

The vast powers of the Federal Government and courts are being exerted to the utmost to destroy trusts and combinations as dangerous. Party platforms, candidates, and speakers have been eloquent in that direction. Public sentiment seems opposed to further concentration of industrial and financial control and power. It prefers competition instead of monopoly. In the face of all this the pending currency bill would have Congress by law create a dozen private regional monopolies or money trusts all owned by private banking corporations, and grant to such trusts and their subsidiary banks an absolute and exclusive and binding monopoly of the bank credit and public currency of the United States. Each regional central bank will exclusively control the public money supply of its region, with the right to grant or withhold its favors from any bank and to promote or destroy local prosperity by granting or denying currency and credit that is essential to the life of trade and commerce. Each regional central bank within its exclusive territory has practically the same autocratic and dangerous powers over banks and business that the Aldrich central bank would have exercised over the whole United States.

Is there not danger, in fact, certainty, that in time these dozen local trusts, with complete mastery over money and credit in their several localities that together embrace the whole country, may combine and dominate the money and credit supply of the United States, and through this power seek to control the politics of the country and the Government of the Republic? That is the tendency when the powers of privilege are given a chance by law to increase their profits and grip on human affairs. Such a combine to be effective and dangerous need not be formal or tangible or even visible. It will be more sinister, bold, and dangerous if it can work in the dark without legal responsibility or public observation. That is the precise condition of Wall Street and the method it employs. No one doubts its effectiveness and evil power.

In fact, the amendment recently accepted to the pending currency bill, creating a bankers' advisory board of one from each of the dozen Federal banks to actually sit with the seven Government board members, may be the final union of these dozen private banking trusts, and in effect complete the formation of one universal money trust under private control, with influence and power over all money and credit little short of what the Aldrich central bank would have had. In fact this bankers' council will, in effect, be a great private central bank. All it must do to gain the same power as the Aldrich bank is to successfully match wits with the seven members of the Federal board or marshal Wall Street and the banks in politics with enough money and power to bring about the appointment of friendly members of such Government board. I believe I should plead guilty to having first suggested this bankers' council plan in a letter to the President as a way to avoid allowing the banks to appoint members of the Government board, but I also pointed out the danger of the plan creating a universal banking trust. On more mature thought I now realize that the suggestion was a mistake.

If we must have in private hands a complete monopoly of money and credit, would it not be better to have it open, incorporated, known and visible, like the

Aldrich central bank, than to have the same thing operating secretly with "black hand" methods, beyond the reach of the Government or the people, using its dozen regional money trusts to work its will on the defenseless small banks and the business of the United States?

Congress surely has the wisdom to devise a plan that will avoid these dangers, be patriotic as well as safe, and protect and preserve instead of undermine and destroy our independent banking system, that has been one of the chief factors in the country's wonderful industrial, commercial, and agricultural development. Instead of the law forcing the banks of each region to confederate for mutual profit and advantage it should prohibit their doing so. Every bank, independently of every other bank, should be amply protected and safeguarded and allowed as a legal right, and not as a favor, sufficient currency and support for any emergency; same to be obtained direct from the currency-issuing agency of the Federal Government. Of course it will be properly safeguarded. This relief should not be strained through the itching fingers of private monopoly in the form of a regional bank that may be dominated by a clique interested to embarrass or even destroy such bank, because it refuses to yield to the unjust demands of such clique as against the welfare of its stockholders, depositors, and customers.

The presence of the minority directors selected by the Federal reserve board in the Federal reserve banks no doubt will have a wholesome moral influence, and the Federal board, by publicity or otherwise, will be very useful if kept free from bank influence and control. But so long as the regional Federal banks have absolute power and discretion of rediscounting for any bank or refusing to do so and fixing interest rates, these regional central bank trusts exclusively will wield the life-and-death power over all banks and business that necessarily is possessed by those who can at will inflate and contract the country's supply of money and credit. At least the Federal board's power is secondary, and can largely be vetoed in practice by the Federal banks. President Garfield said that whoever controls the supply of money and bank credit will in large measure control the business and activities of all the people.

The incorporated "middleman," the Federal reserve banks, the regional central money-trust system between the Government board and the local banks should be stricken from the administration's bill as unnecessary, useless, and dangerous. The Government board should be enlarged and further safeguarded, and a reasonable share of the legal reserves of all banks merged and placed under the control of this Government agency to be used along with the public currency and revenues to establish currency and credit elasticity and protect all banks and business against panics, substantially as is excellently provided in other sections of the administration's bill.

The demand being made by the big city banks that the banks be given the right instead of the President to appoint part of the Government officials comprising the Federal board that is to regulate the banks, and that such persons be bankers is bold and rather impertinent. If the railroad should demand the right to appoint railroad presidents as members of the Interstate Commerce Commission that regulates railroads the cases would be parallel. It is not prejudice against bankers or desire to harm banks that inspire opposition to this strange demand that bankers be made a preferred class by law and allowed to comprise the jury and court that is to hear and determine their own cases. If a banker will sever his connection with banks, and has the character and standing satisfactory to the President, and when appointed takes the oath of fidelity required of all Government officials, he will make a very useful member of the board and will not be barred or discriminated against because he was a banker. But the big banks will not trust the President, and they ask Congress to authorize private banking corporations to perform part of the President's constitutional duties of appointment, and this for the avowed benefit and profit of such corporations. Of course no self-respecting administration or Congress could comply with such a demand.

ARTIFICIAL STRINGENCY.

The banks of the country should be able to see the rising spirit of these progressive times and realize that genuine and unmixed Government control of the public currency and public regulation of their quasipublic banking corporations is inevitable. They should join in helping to make such control impartial, honest, efficient, intelligent, unselfish, and patriotic, for they can only delay but not prevent that ultimate result.

If the big banks controlled by Wall Street are trying to influence Congress, legislation, and public sentiment by increasing interest rates and contracting bank loans unnecessarily, artificially, and in concert and discrediting the credit of the Government and its bonds, as recently intimated by the Secretary of the Treasury, one of the most important objects of banking and currency legislation should be to provide means to prevent banks being used for such purposes and punish those who cause financial stringencies and menace the country with panics by such lawless means.

The whole country was never more prosperous or in better condition than now, so far as natural conditions go. Crops are bountiful and prices good. Up to recent weeks the volume of general business equaled any former year and was highly profitable. Factories were all running full time or overtime. Labor was fully employed at the highest average wages ever paid. There was plenty of money and available bank credit at moderate rates. This condition of general prosperity has been checked and is being impaired by somebody by artificial means. Why is this being done? With more money than ever in the banks, interest rates are higher, and the supply of bank credit available for business much less than at any time in recent years. This harmful and dangerous result has been caused by the banks, and no other persons or interests could do it. Banks have the power to put quick and effective pressure on business men by suddenly and unexpectedly calling loans in large volume and refusing needed banking accommodations. They can, if they will, carry the process to an extreme that may cause general stringency or even panic and paralyze everything. That is the way every panic was caused, by the wholesale calling of loans by the banks acting in concert, whether such action was unavoidable or planned; and it is the only way a panic can be caused. If another panic occurs, the country should understand that the banks and only the banks did it.

All banks can not be blamed, even where the stringency may be planned and instigated by powerful, selfish interests that seek thus to force the country to make Congress pass currency and banking legislation or other laws of a kind desired by such interests.

The men who manage a large share of the 25,000 banks of the country, particularly the smaller banks that comprise three-fourths of the total, are intelligent, reasonably unselfish, patriotic; and they are more or less identified with industries and business enterprises that are harmed by any shock to prosperity. But these banks are part of a great system that binds all banks together by means of interlocking reserves and other agencies, and the seat of power of those dominating this intricate and nation-wide system is in Wall Street. The big banks of New York hold a large share of all bank reserves, and in many ways have a powerful, if not controlling, influence with the country banks. When these big banks suddenly go to calling their loans and raising interest rates and alarming reports and predictions from more or less intangible sources are published by the press and sent broadcast, country banks naturally take alarm, and in self-defense and because of the mystery and uncertainty all go to calling loans and putting the screws on business. Thus, without their fault and because of the bad system most of the 25,000 banks are made to helplessly play an important part in the great and easy game of strangling prosperity by the wholesale calling of bank loans by the banks acting in concert to further the political or legislative schemes of the powers of privilege.

No banking and currency measure should be passed that does not completely, effectively, and permanently emancipate the banks of the United States and the business customers of such banks from such a continuous and deadly peril to their interests. Unless the country bankers and the business men of the country are so paralyzed by fear of the big banks that they can not think or see the obvious, they will prefer to intrust their welfare to the supervision of a disinterested and law-controlled agency of the Federal Government, backed by the entire credit and taxing power of the Nation, rather than to those whom the powers of privilege are certain sooner or later to install to manage in their interest any system of private control of the public currency.

PROGRESSIVE CURRENCY PLAN.

At a time when constuctive aid instead of mere obstructive criticism is so much needed, it seems proper and necessary, in justice to those struggling with the problem at Washington, that I supplement my rather hurried discussion of other bills with the attached draft of a measure suggested as a compromise on which it is hoped the progressives of all parties can unite; for I realize the

importance of early action on the question. But we must remember that it is more important to be right than to get quick action on a matter of such grave importance. No doubt this bill will need some modification and editing, because only a few days were available for its preparation. This bill, instead of being a patch upon or a new crutch under our decrepit and thoroughly discredited monetary and banking system or a mere temporary makeshift, is a conservative, scientific, complete, yet simple, ideal plan, by which the independent banking system can be preserved and strengthened and amply protected and the country's monetary policy reorganized on an elastic and sound gold basis.

WHAT THE MEASURE PROVIDES.

A department, instead of a mere board of the Federal Government, called "United States Monetary Council," created with supreme and exclusive control of all banking and currency matters. It consists of 16 persons appointed for eight years by the President, with the advice of the Senate, part to retire each two years, and all former Presidents, each to receive a salary of $10,000, except that 4 of the 16, the Secretaries of the Treasury, Agriculture, Commerce, and Labor, shall be ex officio members. This body shall employ financial experts of the highest standing as advisers and to serve as governor and deputy governors. It shall take charge promptly and organize the system, $5,000,000 being appropriated for the purpose.

If some time an amendment to the Federal Constitution to that effect is adopted, the council shall become a coordinate branch of the Government on a par with the executive, legislative, and judicial branches. The council may establish branches, using post offices where convenient, and employ agents. This completes the organization, but a final section is added creating the "United States Monetary Congress," a public Federal body of 72, one elected by the people of each State for four years, half each two years, and 24 appointed, half each two years, by the President, with the advice of the Senate.

This body, to be chosen in 1914, shall thereafter select all members of the United States monetary council, which is the executive body managing the business. The monetary congress meets once each year, membership being honorary, each member receiving only his expenses.

If the creation of the monetary congress is deemed unnecessary, that section can be stricken out, leaving the council in full and supreme control.

As every State is vitally interested in an adequate supply of currency and has its own special local needs, as well as the Federal Government, and in view of the "farm-credit bank" feature of this bill and the interest therein of the rural communities of each State, the establishment of a United States monetary congress representative of all sections and keeping the power of ultimate control of the public currency in the people themselves would seem to be wise and the best method of insuring public responsibility on the part of the council and for keeping the whole system on a high and dignified plane, free from partisan politics and Wall Street influences. It seems to be the best way to make the system permanent.

The council needs no capital stock, because the cash reserve of every bank is made 15 per cent of their deposit liabilities, and two-thirds of such legal reserve must be kept permanently deposited with the council. This merges nearly a billion of dollars of actual cash in one "central reservoir" under public control, provided all State banks also come in, as they no doubt will do to escape a tax of 1 per cent imposed on their total deposit liabilities if they stay out. This plan also will defeat the threat of big national banks to convert their institutions into State banks.

The council may use these bank reserves and the public currency and reserves in rediscounting for the banks, chiefly commercial paper, or rather loaning same to banks on such collateral in order to get it into circulation among the people for the general welfare. The council fixes its general discount rate or currency tax, same to be uniform throughout the country. This plan keeps the Government out of the banking business and the banks out of Government's business of issuing currency and regulating its volume. The chief purpose of the council is to get the public currency into circulation among the people, and it uses the banks because they are ready and safe agencies for such purpose. The banks are allowed fair compensation for the actual service they render, but they must pay for currency what it is reasonably worth, and the profits all belong exclusively to the Federal Government.

All kinds of currency, including gold certificates, greenbacks, and bank-note circulation, is to be gradually called in and canceled. In its place shall be issued new national currency of just one kind in convenient denominations. This will be paper money that is an obligation of the Government, a full legal tender in the United States for the payment of any debt, public or private, redeemable in gold, and secured by a reserve of at least 33⅓ per cent of actual gold coin or bullion held by the council. The Government now holds enough gold to completely reorganize the Nation's entire money supply on that basis, practically without expense.

Half of the cash reserve to be deposited by banks with the council may be 2 per cent United States bonds. This will retire half of the bank currency and enable the banks to at once market half of their 2 per cent bonds at par. The council is authorized to gradually buy from the banks at par the balance of their 2 per cent bonds as bank currency is retired, paying for such bonds in the new national currency. This saves the banks from all loss on 2 per cent bonds and avoids the big interest expense that must be paid by the Government year after year if 2 per cent bonds are refunded into 3 per cent bonds or are allowed to run on indefinitely as security for bank currency.

No one will question the soundness of this reorganized currency, for everybody must accept it at par; it is redeemable on demand in gold and secured by a reserve of actual gold, conceded in the Aldrich bill to be ample even without Government guaranty behind the currency and also in the administration's bill; and behind every dollar will be the entire faith, credit, and taxing power of the richest and greatest Nation on earth.

The Government is as well protected against loss in the attached bill as under the regional-reserve plan. The council always will know the condition of each bank. If not sound, it can borrow no currency; if sound, it can borrow a limited amount on collateral believed to be ample. Then the council has a first lien on all the assets of the bank and upon the legal cash reserve deposit of the bank in the hands of the council at all times and which may exceed the amount of currency borrowed. Finally, if losses occur during the year the council apportions such losses and they are paid by all the banks of the country in the system. This practically puts 25,000 banks, if all join, behind each loan made to any bank. This plan gives the Government better protection against loss than any other proposed plan. If this be true, the cumbersome new machinery—the suggested regional reserve central banks—are unnecessary, and it will be more simple, easy, and practicable for each bank to deal with the Government's council direct or with its branches. A bank then will get as a legal right and not as a favor whatever its condition and need justifies and without asking the permission of other competing banks or a regional private money trust standing between it and the Government, the source of all currency, with power to block such aid.

As this plan provides a safe, scientific, deliberative, dignified, law-governed public body behind which is the responsibility and good faith of the Federal Government, a currency conceded to be sound, a plan for getting it into circulation that guards against any loss, and provides ample currency and credit elasticity that will protect all banks and make money panics impossible, what more do we want?

If there is serious objection to the guaranty of bank deposits, the mutual guaranty by all banks of the solvency of each bank by a fund created in the hands of council for that purpose, that section can be eliminated. But why should not this be done? This section authorizes the plan, but does not make its adoption by the council mandatory. Deposits are enticed into banks partly because the Government by its course leads the people to believe banks to be safe and sound. It has the power of examination and the responsibility of keeping the banks sound. Why, then, should not the council provide means by which under all circumstances the depositors will be protected against loss, the risk and slight cost to be apportioned among all the banks according to total resources, respectively? Would not that course put all banks at work purifying bank management to avoid losses?

Transfer of the management of the postal savings system to the council puts postal savings deposits immediately back into circulation through the council and the banks. It provides a ready-made organization that can be more or less used by the council—every city having a centrally located post-office building with ample room for a branch or sub office of the council where it will be handy for the banks to clear their checks and arrange for currency and rediscounting. In time every important post office can be connected together, and

with the council and its branches and with the Federal Government, with a telegraph and telephone system owned by the Government. A mailing and express system will be established that will facilitate and cheapen the cost of doing the banking business of the country and increase its safety and efficiency.

If the banks will study this bill without prejudice, 90 per cent of the 25,000 banks, all but the big banks in various sections affiliated with Wall Street, will support it, because it will benefit the banks as much as anybody.

This bill makes raids on the public gold reserve to injure the Government's credit a felony. Who objects? It makes it a criminal offense for banks in concert to call in bank loans and injure prosperity, pinch business, cause stringency and perhaps panic for the purpose of forcing political or legislative action for the benefit of conspiring powers of privilege and against the general welfare. Who objects?

It requires a bank to treat its customers fairly and without discrimination as to interest rates. The trust that borrows at 1 or 2 per cent while its weaker competitor must pay the same bank 6 per cent may object, but the average business man will not.

This bill makes it unlawful for any qualified bank to charge over 7 per cent on either time or call loans. Wall Street will object because its chief means of enticing the money of the whole country away from legitimate local business and into its great gambling game is the running up of interest rates on call loans to 10, 50, 100, 200, and once to 1,000 per cent. This is one of the chief means used to start panics, and should be stopped by law. The best way to prevent panics is to remove the causes, making banks safe in a panic is not sufficient. Panics must be stopped altogether by removing the causes if the business and prosperity of the country is to be made safe and permanent.

The Government can do these things better than anybody else, because it has power. It can change the laws and invoke the criminal code to protect the people against these evils if necessary. Only the Government can create a financial power greater than Wall Street and its allies and emancipate the 25,000 banks and all business from the expensive, sinister, and dangerous domination of high finance. And this bill will accomplish that result easily and quickly in the only way it can be done. Why not now make a complete and thorough reform of the country's banking and monetary systems on these rational and conservative lines?

The "farm credit banks" authorized by this bill will be a great blessing to the farmers. It will facilitate the movement of crops and help reduce the cost of living. It provides the only safe and legal plan by which currency owned by the Government can be made available for the use of the farmers direct at moderate interest rates and without risk of loss to anybody. In this way the surplus revenues of the Government can be made to help move to market the cotton, wheat, corn, and other crops in precisely the same way that such money in the past has helped industries in the cities through the banks.

There is no favoritism in this bill to any class, clique, or interest. Everybody is put on a plane of absolute equality, including the banks. That should be the policy and practice of Government always.

The permission granted to banks to make safe farm loans will help the farmers as well as the banks, and the plan for allowing national banks to open and conduct branches in foreign countries, under proper restrictions, will create powerful support for the important work of extending our foreign trade. No honest banker or law-abiding bank should fear the severe penalties imposed on those who knowingly break the law or rob their customers and banks by exacting for themselves secret commissions in transactions with the banks of which they are trusted officials.

GOLD STANDARD.

The act of March 14, 1900, established in this country the single gold standard of value. No doubt it will be the permanent policy of this Government. International balances always are settled in gold. The balance of trade in our favor each year now is about $500,000,000: that is, we export or sell that much more than we import or buy. This has enabled us to accumulate in this country nearly $2,000,000,000 of the $7,000,000,000 comprising the world's entire stock of gold. We have enough actual gold to put behind every dollar of the $3,600,000,000 constituting the entire stock of all kinds of money in the United States, a 50 per cent reserve of actual gold. Our monetary position is the strongest of any nation and would be impregnable if we had a sound and scientific system such as proposed in this bill, instead of the ridiculous patchwork

now in use. With a good monetary and fiscal system our foreign trade can be multiplied and the United States ultimately enabled to dominate the finances and the trade and commerce of the world. If our exports fall or imports increase unduly, so that the annual balance in our favor is less than the total of what each year we pay as interest and dividends to foreign holders of American securities and that is spent by our citizens in foreign travel, our stock of gold will begin to shrink and go abroad. This causes a corresponding shrinkage in the cash reserves of the banks and forces the banks under the law to reduce the volume of their loans to business men several times the amount of such shrinkage of bank reserves caused by the exportation of gold. In other words, the borrowers from banks must, on the average, curtail their business operations and pay up $4,000,000 to $10,000,000 of their bank credit loans for each $1,000,000 of gold sent out of the United States. It is, therefore, vital to American prosperity to hold or increase our stock of gold. This can only be done by increasing our exports or reducing imports or purchases abroad or by buying gold in foreign countries with American securities or Government bonds on which we must thereafter pay interest annually.

The tariff can and should be made an effective "governor" or instrument for regulating international commerce from day to day, month to month, and year to year so as to absolutely insure that we always will sell more than we buy abroad, and thus obtain a balance of trade in favor of the United States at least large enough to hold our gold. Some time the tariff must be taken out of politics and away from party graft and favoritism and administered strictly as a fiscal matter by a department of the Government in close, daily cooperation with the United States monetary council. It can give protection to our industries and agriculture, not to help this man or that corporation make a profit, but chiefly to insure general industrial and agricultural prosperity so that exports and imports will be so regulated that our gold will be retained and our financial and commercial position always be sound and prosperous.

Instead of a protective tariff or a revenue tariff, the United States needs a progressive tariff of the character and for the purpose indicated, more than it needs anything else, excepting only an ideal money and banking system.

The said act of March 14, 1900, imposed upon the United States Government the duty and whole burden of maintaining the gold standard and providing a gold reserve and for the redemption of all its currency in gold; and it was required to issue its interest-bearing bonds without limit when necessary to buy abroad gold with which to accomplish these mandatory requirements. While the banks get a large share of the benefit, the law imposed on them no share of this burden and did not even require them to cooperate with the Government in such matters.

In fact, in the past, national banks existing under Federal laws granting to them such special privileges have actually helped organize deliberate, treasonable raids upon the Government's gold reserves for the purpose of injuring the public credit and forcing the Government to issue, for the profit of the conspirators, long-time bonds bearing high rates of interest to buy back the very gold that such interests had thus improperly taken away from the Public Treasury. The attached bill makes such treasonable raids a felony, punishable by fine and imprisonment. It also obligates the banks to cooperate with the Government in maintaining the gold standard and public reserves by authorizing the council to require the banks to pay their obligations to the council in gold when the public interest requires it, and by requiring the council to apportion among all the banks, according to their total resources, respectively, one-half of any expense incurred by the council and the Government in maintaining the gold standard and gold reserve, if any such expense ever is necessary.

The present system tends to range the banks in opposition to the Government whose laws give them life, power, and profits. The bill herewith reverses this condition and makes it for the interest of every bank to guard and protect the credit of the council and the National Government, and will greatly strengthen the Republic and its institutions at the foundation by making 25,000 banks scattered throughout 48 States, and the business interests dependent upon such banks, all active and interested allies of the Federal Government, through the United States monetary council, in the supreme work of establishing and forever maintaining a sound and healthy national prosperity that will bestow its impartial blessings upon all the people of the United States.

Very respectfully, yours,

ALFRED OWEN CROZIER.

COLLEGE HILL, CINCINNATI, OHIO,
August 20, 1913.

EXHIBIT A.

An Ideal Money Plan.

[A definite plan for banking and currency reform, prepared by request, for presentation to the currency committee of the House Committee on Banking and Currency at Washington, by Alfred Owen Crozier, of Cincinnati, Ohio, author of the financial books The Magnet and United States Money *v.* Corporation Currency.]

MARCH 2, 1913.

GENTLEMEN: Responding to your kind invitation, I will venture to outline an ideal system and machinery for accomplishing monetary and banking reform, and for thereafter regulating the volume and disposition of the public currency to secure elasticity and other needed improvements in the interest of all the people. Then a definite plan for reorganizing the country's entire money supply on a sound gold basis will be suggested. The aim has been to eliminate the objectionable and utilize the valuable portions of other proposed plans, and thus construct a compromise that conservative business men, as well as the masses, will consider reasonable, fair, and just to all concerned, and yet safe, patriotic, and economically sound.

PUBLIC CONTROL.

It is assumed that private control of the public currency now is impracticable and impossible. The Democratic and Progressive Parties in their platforms oppose the private-control plan, and two-thirds, and possible 90 per cent, of the voters favor Government money and object to corporation currency.

As public control is inevitable, it should be the best attainable. The plan adopted must absolutely bar out so-called Wall Street influences and partisan politics. The public body or Government agency controlling the country's 3 billions of cash and over 15 billions of bank credit based on such cash will to a large extent have supervision and direct control over the 25,000 banks and, through the loans of such banks, indirect power over the business activities of every individual and corporation.

President Garfield once said that whoever controls the supply of currency and bank credit will largely control all American business. Thomas Jefferson, when opposing the issuing of public currency by a private central bank, declared that a private bank issuing and controlling the volume of the public currency would be more dangerous to the country and the liberties of the people than a standing army. Andrew Jackson when President took the same position. That, historically, is the Democratic policy. It is now the view of the progressives of all parties.

Authorities agree that the prices of all securities, property, and human labor can easily be raised and lowered simply by increasing and decreasing the volume of money in circulation or the general discount rate, thus vitally and constantly affecting the material welfare of all the people. Therefore it is imperative that the public body wielding this life and death power over the prosperity of the country and the welfare of all banks and individuals be honest, disinterested, efficient, intelligent, independent, deliberative, businesslike, patriotic, and law governed.

That is too much power and discretion to put into the hands of one public official or a small appointive commission or the executive committee or board of directors of one private corporation run for profit, like the proposed Aldrich central bank. Even a lawful misuse of such power by intentionally or ignorantly inflating and contracting excessively the volume of currency or improperly manipulating the general discount rate may unjustly increase the interest burden on all business and the living cost of every American home, or, on the other hand, wreck prices, demoralize industry, close factories, plunge millions into idleness and distress and perhaps cause panic and general ruin. The forced or voluntary wholesale contraction of bank credit—bank loans—excessively by the big banks acting in concert will always quickly create a general financial stringency that may precipitate a panic. In the wrong hands this power of elasticity may be a dangerous engine of destruction, but properly safeguarded and in wise and patriotic hands it will be the most useful and beneficent means for regulating and stabilizing prices and promoting a sound and steady and permanent prosperity for the good of all the people of the United States.

The Treasury Department is part of the executive branch. So are commissions like the Interstate Commerce Commission. These are under the Presi-

dent and subject to his power of appointment and removal. There is danger that this great power over the banks and country sometime might be improperly used for partisan purposes or be secretly bartered to the powers of privilege for campaign funds or support if exercised by the Treasury or an appointive commission. When it thus became a football of politics and an instrument for granting favors and practicing unjust discrimination the aroused people soon would abolish the system. No plan will be permanent unless it is right, sound, patriotic, scientific, just, and impartial as well as efficient What is most needed is a scientific and sound system that satisfies all the people as well as the banks and business men. Then it will be permanent.

REPRESENTATIVE BODY NEEDED.

No system will long satisfy the people unless they have a reasonable voice in it. Therefore this power should be in the hands of a representative body. At least a majority of the members should be chosen by popular vote. The people of each State should elect one representative, because every State has its own special currency and credit needs. And it is wise to be sure that no section of the country ever will feel that its rights and interests are being ignored.

The States have the right to demand representation to guard the welfare of State banks and trust companies and those business interests dependent upon such institutions, for over two-thirds of all banks are State banks. Also, because States legally can authorize the issuing of currency, but now are prevented by a prohibitory 10 per cent Federal tax on such State currency.

On the other hand the Federal Government should be well represented. It has a constitutional right to issue currency and exclusive right to coin money and regulate its value. For 50 years practically all currency has been issued under its exclusive authority, and this plan has proven more safe and sound than any other. And it has the means of detecting and punishing counterfeiting. The States will be willing to have currency issued exclusively by Federal authority, provided their citizenship can help choose the members of the public body that is to regulate, control, and have the disposition of their entire money supply and regulate the volume of bank credit.

A body in which the Federal Government and each State is represented should best fit the needs of the present emergency. To make it permanent and supreme over its functions it should be a coordinate branch of the Government. This will require an amendment to the Federal Constitution. Ultimately such amendment can be adopted. Meantime Congress has power to create such a body and put it to work at once. It should do so without unnecessary delay, for the present system is defective and dangerous. The following plan is tentative and of course subject to such modification of details as discussion and thought may prove to be wise.

UNITED STATES MONETARY COUNCIL.

A new branch of the Federal Government shall be created by act of Congress. It shall be called the "financial department." Ultimately it shall be made a fourth coordinate branch by amendment to the Federal Constitution. It shall have the same supreme and exclusive control of all matters of banking and currency and other matters committed to it by Congress that the executive, legislative, and judicial departments have over their respective functions and no more.

The financial department shall consist of the United States monetary council and its appointee subordinates. The council shall be composed of 75 members called "councilors." One of these shall be elected by the qualified electors of each of the 48 States, subject to recall by vote of such electors. The other 27 shall represent the Federal Government. Of these the Vice President, Speaker, Secretary of the Treasury, Secretary of Commerce and Labor, and Attorney General shall be ex-officio members, the other 22 to be appointed by the President without regard to party affiliations with the advice and consent of the Senate. Any appointed councilor can be recalled by the President and Senate on the initiative of either. The term shall be four years, but half of the elective and half of the appointive councilors shall be chosen every two years.

Council shall meet regularly in February of each year and specially when called by its governor, managing board, or on request signed by a majority of the councilors. It shall elect from its membership a governor and two deputy governors. After the first adjustment each deputy governor shall serve as such

four years and then automatically become governor for two years. Council shall select from its membership 12 councilors, three each to serve four years. These, with the governor and two deputy governors as ex officio members, shall comprise the managing board of 15. Such 15 appointees at all times shall be subject to recall by the council.

The United States monetary council shall have authority to adopt ordinances, civil and criminal, pertaining to all matters within its jurisdiction, same to have the status, character, force, and effect of laws passed by Congress and be enforced in the same manner.

The managing board shall have full charge and conduct from day to day of all the business and affairs of and for council, subject to supervision, approval, or revocation by council The managing board shall not adopt ordinances, but it may make, alter, and repeal rules and regulations for the conduct of the business, guidance of its agents and employees, and the control of individuals and corporations subject to the regulation or supervision of council. The board shall appoint, discharge, and fix the compensation of all agents and employees and direct their work. It shall employ seven advisers, who may or may not be members of council, to be "business managers." These shall be financial and business experts of the highest skill, knowledge, and ability, paid whatever salary their valuable services may be worth. The business managers are to actively manage the business of the council, under the direction of the managing board.

The business managers and members of the managing board must divorce themselves from all outside business and entanglements and give their whole time to council affairs. Each shall take the usual oath of public servants. They and all agents and employees, on or before February 1 every year, each shall file with council a sworn declaration that during the preceding fiscal year he has faithfully and honestly discharged his official duties free from all partisan and improper influences, and that he has not sought, received, or been offered any pecuniary or other consideration or benefit other than that paid by council for any act or omission pertaining to his official duties or given out any information about council's business or proceedings without express authority to do so A false declaration shall be made perjury, punishable as such. The compensation of the councilors shall be fixed by Congress in the law. Preferably no salary shall be paid. Each councilor might be allowed, say, $25 per day during council's sessions, and actual railroad fare. This would remove the position from the scramble of ordinary partisan politics and insure councilors of the highest character, standing, and business experience; men who will serve for the honor and as a high patriotic duty. It should not take more than a month's time in any year.

Council shall fix the salaries of its officers and of members of the managing board.

The managing board shall fix the salaries of the business managers and all other agents and employees.

All salaries, compensation, and expenses shall be paid by council from funds under its control. Council will be entirely self-sustaining, and also will produce a large, steady, annual revenue for the support of the Federal Government.

COUNCIL'S FUNCTIONS AND POWERS.

No doubt the country would consider it perfectly safe to leave, without reserve, to a dignified and representative body of such high character and intelligence the whole duty and authority of devising and executing in the public interest a progressive and practical system of banking and currency. No other plan yet suggested proposes an agency so representative, responsible, disinterested, and competent or a system so safeguarded and scientific.

But there can be no objection, if Congress deems it wise, to imposing upon the council in the act of Congress or otherwise certain specific duties as well as granting to it the necessary powers, such as, say:

1. The existing gold standard shall be maintained.

2. All money shall be kept at a parity with gold in value and guaranteed by the Federal Government.

3. All money shall be full legal tender, each dollar always good anywhere to lawfully pay a dollar's worth of debt or purchase.

4. All currency shall be redeemable in gold.

5. All currency shall at all times be covered by a reserve of at least 50 per cent of actual gold, except that for purposes of elasticity and to meet temporary emergencies the gold reserve may be reduced to not less than 33⅓ per cent.

6. It shall be the policy gradually and as soon as practicable to retire all kinds of money except subsidiary coin and substitute just one kind of gold-secured, legal-tender national currency in convenient denominations.

7. Silver not needed for subsidiary coin may be held as part of the reserve at its current gold value.

8. As bank-note currency is gradually retired and canceled by council it shall purchase at par from the banks the 2 per cent United States bonds used to secure such currency.

9. All bank reserves shall be merged into one general fund for the protection of all banks and be deposited with the United States monetary council, except that any bank may retain in its own vaults not exceeding two-fifths of the minimum legal cash reserve, which minimum cash reserve for every bank shall be equal to 15 per cent of its total deposits.

10. Council may use portions of such deposited reserves and other money under its control to rediscount for the banks under strict safeguards short-time genuine commercial paper; also in emergencies to otherwise protect the banks and relieve the legitimate business of the country through the banks.

11. Council from time to time may fix its general discount rate, which shall be uniform throughout the United States.

12. Council shall not be a bank or do a general banking business in competion with banks. It shall accept deposits only from banks and the Government.

13. Council shall not unfairly discriminate or indulge in favoritism in the administration of its business. Each sound bank shall be entitled to equal treatment as a legal right and to adequate relief in time of trouble on application to council direct. This right shall extend to State banks and trust companies, including savings banks, so far as practicable, on some basis to be devised by council.

14. The Government shall deposit with council as received its public revenues and funds, including postal savings bank receipts, and shall make its disbursements through council.

15. Council may issue United States exchange and authorize banks to sell such exchange against their free deposit balances with council.

16. Council may establish and maintain such branches and agencies as it may deem necessary.

17. Council shall have the custody and administration of the Federal mints, gold reserve, and trust funds, and exclusive charge of all currency and monetary matters and of the authorization, supervision, and regulation of banks.

18. Holders of national currency shall be entitled to exchange it for all gold needed for any legitimate purposes, but the organization or execution of deliberate raids on the gold reserve for the purpose of embarrassing council or forcing the Government to issue bonds shall be made a treasonable felony punishable by severe fine and imprisonment.

19. The private disclosure of confidential information about the business or action of council to unauthorized persons in advance of official publication, made by any officer, agent, or employee of council, shall be punished by fine or imprisonment, or both.

20. Any attempt improperly and privately to influence any officer, agent, or employee of council to do or omit any act pertaining to his official duties, by offering reward, benefit, or otherwise, shall be made an offense punishable by fine or imprisonment, or both. And it shall be a like offense with the same punishment for any officer, agent, or employee of council to accept or solicit any such reward or benefit.

21. No officer, agent, or employee shall while in the service of council buy or sell or cause to be bought or sold for himself or others any securities or property quoted on any stock exchange or board of trade, or privately advise others as to any sale or purchase of such securities or property. Violation of this shall be an offense punishable by fine and imprisonment, or both.

22. Council shall annually prepare and publish to the country a full report showing the monetary condition of the Government, and such other information as council may consider necessary to keep the people informed. Except in extreme emergencies, weekly changes in the discount rate and other acts likely to influence the range of prices or the course of private business shall be made public at 4 p. m. on Saturdays, and not before.

CAUSE OF HIGH PRICES.

Since 1890 the country's stock of gold has increased from about $600,000,000 to over $1,800,000,000. The total volume of money of all kinds has increased from

$1,700,000,000 in 1890 to $3,600,000,000 in 1912. But the banking power of the United States, chiefly loans of bank credit, has grown from $6,000,000,000 (7,909 banks) in 1890 to $25,000,000,000 (25,195 banks) in 1912.

It is conceded by all economic and financial authorities that an increase of the purchasing power of the people by increasing the volume of money of any kind in circulation tends to raise prices of commodities, securities, and other property by increasing the demand. Also that reducing the quantity of available money produces the opposite effect. It is immaterial whether such increase is gold or good paper currency. It is also conceded by all that an equal increase or decrease of the volume of bank credit (bank loans) available for business produces precisely the same effect on prices and to the same extent as inflation and contraction of the supply of money, and for the same reasons. Such "credit" is used as a substitute for money. The demand price for a horse is increased when two want to buy, notwithstanding only one has money, provided the other has bank credit against which he can draw a good check, even if his bank account was created solely by discounting his promissory note. And over 15 billions of bank deposits were created that way, without deposit of any cash, the total cash owned by the 25,000 banks being only one and a half billion dollars.

Since 1890 the volume of money (including the gold increase of 1,200 millions) has increased 1,900 millions, while the volume of bank credit or "banking power" has been inflated 19,000 millions of dollars. Whatever advance in the general range of prices has been caused by increase of the supply of gold and other money, the enormous inflation of bank credit has caused 1,000 per cent greater effect in increasing the cost of living.

The 46 nations of the world together possess only 13 billions of all kinds of money, of which less than 7 billions is gold.

The world's banking power, chiefly bank credit in the shape of business loans, is about 60 billions. The United States has 20 per cent of all the money in the world, but 40 per cent of the earth's "banking power," much of it inflated bank credit.

Since Columbus discovered America in 1492, the whole world has produced only 13 billions of dollars of gold. Yet during the 22 years since 1890 the banks of the United States alone have created and put into circulation 19 billions of bank credit that is used as a substitute for money and often in place of gold. Thus bank credit, mere financial wind, is coming to largely subvert, if not supplant, gold as the measure and regulator of all values. It is destroying the gold standard, which is good in theory but growing useless in practice. While 23.22 grains of gold under the law is a dollar, that dollar and that quantity of gold will buy little more than half as much commodities or property as it did before bank inflation raised prices, or, in other words, cheapened money and gold by reducing its purchasing power.

Indirectly through the international channels of credit, finance, and commerce this American bank inflation has largely caused the increase of prices throughout the world. Because wages have not increased as fast as commodity prices, the United States is chiefly responsible for increasing the burden on the entire human race by increasing relatively the cost of living.

The monetary experts and economists of the world largely hold that rising prices and disturbed values are chiefly due to increase in the output of gold. It would seem that in thus blaming gold and ignoring the tenfold greater increase of bank credit they are "straining at a gnat and swallowing a camel." Some even propose as a cure-all that gold be "watered" like stocks, by increasing the proportion of alloy or the charge for coinage.

BRIDLE THE BANKS.

The need of the hour is some effective means for putting a reasonable check on this wild and reckless and dangerous inflation of bank credit. It has been shown that banks will not check themselves and lose the chance of increasing their interest profits for the good of the country and to maintain sound and stable prices. The blame can not be fixed upon any one bank, so all go on inflating their credit to the utmost legal limit, and new banks are being organized constantly. It is the duty of Government to gradually put on the brakes. It can stop further unhealthy inflation, even if it may be difficult to safely reduce the present volume of bank credit. This must be done quickly, or the wildest financial crash in the world's history will gather and break and engulf all. Only the National Government has sufficient power, and it is powerless

until Congress provides the necessary machinery. The council plan is best suited to this purpose. No harm will come to the legitimate interests of the banks, but banks must be restrained so they will not harm everybody else to unnecessarily increase their own profits.

The only legal limitation on the inflation of "deposits" of bank credit by discounting paper is the requirement that each bank must have a reserve of cash equal to 25 per cent of such deposits if in a reserve city and 15 per cent elsewhere. The volume of credit loans of the 25,000 banks now is 10 times their aggregate cash, because some money sustains a volume of inflated credit in two banks. Country banks may lawfully deposit three-fifths of their cash reserves in central reserve banks.

The United States monetary council by contracting the volume of currency could thereby at once automatically shrink the cash reserves of the banks and force them to reduce the volume of their credit loans at least 10 times such shrinkage of cash reserves; and when legitimate business expands and requires more bank credit, the council, by increasing the currency available, will cause a corresponding increase of bank cash reserves and thereby increase the loaning power of the banks 10 times such increase. It all will be very simple and easy and effective as soon as Congress empowers the Government to create and use the necessary centralized machinery for doing it scientifically and safely. It can be accomplished by increasing and decreasing from time to time the quantity of commercial paper rediscounted for the banks by the United States monetary council.

PRIVATE CONTROL DANGEROUS.

It was this imperial power over all banks and business that was sought by the powerful interests promoting the Aldrich private central bank plan, for with it they could at will force all banks to do their bidding, and for the speculative profit of such interests arbitrarily and automatically put prices up and down over and over by inflating and contracting the corporate currency and raising and lowering the rate of discount. In the hands of a central bank owned and run by the banks this dangerous credit inflation would be certain to get worse instead of better, for further expansion would increase bank profits. Safety can be had only by absolute and exclusive public control by a Government body in charge of the whole public currency, with practical scientific machinery for using the power of currency elasticity to promote safe prosperity and check dangerous speculation and improper increase of prices by automatically regulating the aggregate volume of the credit loans of the 25,000 banks of the United States.

There can be no reasonable objection to one centralized agency handling the situation if it be a public instead of a private agency, provided control of these great power is not centralized or sectional, but is widely distributed by being vested in a large, deliberate, representative body composed of influential men from every one of the States. A centralized power under the decentralized control seems to be the only way to obtain both popular control and business efficiency. Without popular control the plan will not be permanent, and without business efficiency it will be impossible to cure the dangerous defects of the present evil system.

COMMERCIAL PAPER.

When banks increase their deposits by discounting genuine commercial paper it is healthy and sound and not improper inflation, no matter how great the volume may be. It all represents legitimate commercial transactions, and such paper when due will be paid and the triangular deal finished. But bank loans of credit instead of cash to customers to use for purchasing stocks and bonds and other permanent investments is improper and unsound credit inflation. No one knows when such loans will be liquidated. For these reasons council should largely require genuine commercial paper as security for currency supplied by rediscounting for the banks in a guarded and restricted way. As the volume of commercial paper rises and falls automatically with the volume of legitimate commercial business, this plan will establish a sound, wholesome, and useful currency elasticity for the good of the people and all business.

Such rediscounting is not ordinary banking. The chief object is to get public currency into circulation. The plan uses commercial paper instead of United States bonds as security for currency loaned to the banks to get out among the people.

A special distinguishing form of blank promissory note can be prepared and furnished by council for the use of those having genuine commercial paper discounted at banks, and council shall rediscount only such marked paper. Severe penalties can be provided against any person or corporation using such a blank note except for genuine commercial transactions. The interest or discount rate charged by banks on this high-grade paper soon would be much reduced, probably to 4 per cent, because the banks could rediscount it with council. This has been the result in Europe. It would greatly reduce the bank tax on business and lighten the burden on consumers and their cost of living, for such interest is an expense that is added to the cost of commodities. The use of United States bonds to secure bank currency reduced in like manner the interest rate on nearly a billion dollars of Government bonds to a 2 per cent basis. The banks will lose nothing by this reduction of interest rates, because they will handle more paper with less risk. Because interest paid on other paper, discounted for investment or speculation purposes, is largely only a tax on the person giving his note, the General Government, in its monetary policy, should, in the interest of the general welfare, discriminate in favor of commercial paper. If all banks permanently merge three-fifths of their $1,500,000,000 of present cash reserves and deposit same with council, that body will have for its steady use nearly a billion dollars of actual cash, a sum equal to half the total stock of the 25,000 banks.

PROFITS OF BANKS.

The inflation of bank-note currency has been 100 per cent since 1900. Such currency now is about $750,000,000. Banks easily could make the volume elastic if they would. The increase and decrease of bank currency is largely optional with banks. That is one of the chief objections. It is private control of the public currency. The law allows contraction of bank currency $9,000,000 per month, or $108,000,000 each year. The banks will expand and not contract such currency, because that course is the most profitable for the banks. Banks can be expected always to do whatever is most profitable irrespective of its effect on the range of prices or the general welfare. That is one good reason why regulation of the volume of the public currency and the national discount rate can not safely be left to the banks or a central corporation owned and run by the banks.

Banks have their rights and should be fully protected. But they are not suffering for lack of profits. This valuable law-given special privilege (denied to individuals and other corporations) of inflating and loaning credit that costs relatively nothing for interest profits, largely explains the fact that the 25,000 banks with an aggregate capital stock of but $2,000,000,000 are getting interest regularly on nearly 25 billions. Not every bank, however, can equal the record of the First National Bank of New York that in 50 years, on an original investment of $500,000, has made over $80,000,000 of net profits.

BANKS AID WALL STREET.

There is direct relation between this enormous inflation of bank credit and the still greater inflaton of trust and other corporate securities. Trusts could not be formed and floated without this bank inflation. Inflation of watered securities has raised prices only because inflation of bank credit (bank loans) has enabled the public to buy such securities. The stock exchange, assisted by the banks of the country, now is able to keep the prices of billions of dollars of listed securities far above intrinsic values. The country would be astonished if it could learn the number of billions of such securities owned or held by the banks as security for loans made to assist the purchase of such securities. That is not legitimate commercial banking and it is dangerous.

The evils of the present system are growing at a compound ratio. Unless soon cured they can not be at all. They may get beyond even the power of Government to remedy. No temporary expedient will answer. A patchwork makeshift may delay the crash a little but it will be worse when the inevitable comes. These are the warnings of conservatism, not an alarmist. The official figures speak for themselves, and so plainly all can understand. The price-raising inflation of the volume of available bank credit during the one fiscal year ending June 30, 1912, was $1,200,000,000. This is exactly equal to the total increase in the country's entire stock of gold during the 22 years since 1890.

The bridle of law must be put on the banks so that they may be restrained and guided for the good of all, including the banks. The public currency is the only effective means, and its control must be public instead of private. A United States monetary council of the character herein outlined would be the best machinery for handling these powers with justice and safety to all and for the general welfare.

This plan if adopted would also greatly strengthen the foundations of the Republic by increasing the dependence of the most powerful financial interests on the Government and its patriotic institutions.

NEW MONEY PLAN.

An ideal monetary system now is possible. For the first time in its history the United States is in position to make the change. Never before was there sufficient gold in its possession. The Government now has more than a billion dollars of the yellow metal, nearly a fifth of the world's entire stock of gold. A conspiracy of events, political, financial, monetary, banking, international, and national, after a century of shifting uncertainty and repeated monetary chaos have culminated in 1913 in a perfect condition for reorganizing on a sound and permanent basis the monetary system of the greatest of all nations. This opportunity may never again occur. Therefore the situation should be promptly handled with courage, intelligence, and progressive statesmanship.

The entire public money supply should be reorganized on a permanent, sound, scientific basis. All kinds of money except subsidiary coin should be gradually replaced by just one kind of currency. This should be full legal-tender Government money, in convenient denominations, redeemable in and secured by gold. Every dollar of this national currency should have behind it the faith and credit and the entire taxing and borrowing power of the Federal Government and whatever gold reserve may be necessary to make it safe and sound. It must be legally good for the payment of any debt or purchase. No one ever can question the soundness of such a currency. It never could depreciate. And one of the highest duties of Congress is to provide the people with an ample quantity of currency that always will be worth par in gold. That is an obligation of sovereignty. It is one of the Government's greatest constitutional functions.

Gold certificates and bank currency comprise over half of the country's entire money supply. Yet both are mere optional currency that anybody can lawfully refuse when tendered for any private debt or purchase. Such currency is not made legal tender by law. Why? Of the money in actual circulation among the people, it is believed that less than 10 per cent is lawful money—legal tender. Most people are unaware of this fact so vital to their interests. Some have lost valuable property by foreclosure, because through ignorance or oversight gold certificates and bank currency were at the last moment offered to redeem, the tender being legally refused. The Government is a party to this fraud on the rights of the people. Every dollar put into circulation under any act of Congress should be real money, a full legal tender, "lawful money."

Gold should be used as collateral security, in the Government's currency reserve, and paper based on such gold for circulation purposes. This will be more practicable and convenient and save the great loss by coin abrasion. It is a nuisance to the banks to handle and store actual gold, and to the people who tote it for pocket use. No one desires to carry the heavy gold, but all want to be sure their paper currency always will be equal with gold in value and purchasing power.

Currency elasticity is needed to facilitate business and protect the banks in times of panic. That is a detail easily arranged if selfish interests will stop trying to gain control of the public currency for private profit and special advantage at the expense of all the people.

But it is vastly more important right now to reorganize the character of all public money so that it will forever be scientifically sound as well as elastic. If Congress will go to the root instead of tinkering to mend some of the branches, it will work a complete and lasting cure of the acknowledged glaring defects of the country's monetary system. This question never will be settled at all until it is settled right. The plan does not change the existing gold standard. It only simplifies and improves it, so our Government will be master instead of victim.

ALDRICH MONEY PLAN.

The Aldrich money plan ultimately would take out of circulation and hoard in the reserve of one private corporation—the central bank named national reserve association—all public currency. Under the provisions of the pending bill every dollar of Government money—gold, silver, gold and silver certificates, greenbacks, and bank-note currency—could be permanently taken away from the people and put beyond their reach. That corporation could and would take from the Government and convert to its own use the entire public gold reserve of more than a billion dollars without the corporation paying or the Government receiving a single dollar of actual benefit. The corporation's entire expense, practically, would be the cost of ink, paper, and printing of the corporate currency that it would run off on its printing press to the extent of \$2 or \$3 issued against each dollar of gold or Government money until all public money was thus gathered into its private reserve. The banks owning all the stock of the central bank could deposit a billion dollars of their billion and a half of cash reserves with the central bank. Against this cash (say, gold certificates) the central bank could print and issue two billions of corporate currency. This handed over to the banks and put into bank reserves would increase the credit loaning power of the banks over \$10,000,000,000 with relatively no extra cost to the banks. The banks then could permanently redeposit their reserves at interest in Wall Street, for the Aldrich bill allows it. The central bank takes the billion dollars of gold certificates to the Government and demands and receives in exchange a billion of actual gold, the certificates being permanently canceled. Thus the corporation acquires and the Government forever loses the biggest stock of actual gold in the world. The Government and the people gain nothing. All this can be accomplished in one week if the Aldrich bill should become law. In place of all this hoarded public money will be substituted corporate currency not guaranteed by the Government. It will not be full legal tender. It will be optional currency that anyone legally can refuse when tendered for a private debt or purchase. Yet it can be issued practically in unlimited quantities, billions of dollars, by a corporation with but \$200,000,000 of net capital. Only a 50 per cent gold reserve is proposed and 33⅓ per cent is legalized. And there is no penalty if the gold reserve is run down to 5 per cent, or to nothing. Moreover, section 41 of the Monetary Commission's bill now before Congress authorizes "a reserve of gold or other money of the United States which the national banks are now authorized to hold as a part of their legal reserve." This makes all kinds of coin and currency except bank notes available for use as a substitute for gold to "secure" the corporate currency. While present bank currency can not be counted as part of bank reserves, the corporate currency to be issued by this coporation owned by the banks can be so counted. The \$565,000,000 of silver, worth intrinsically about 53 cents on the dollar, would be a lawful reserve, without a dollar of actual gold, to sustain \$1,130,000,000 of corporate currency on a 50 per cent basis, or \$1,695,000,000 on a 33⅓ per cent basis. The \$346,000,000 of greenbacks and no gold legally would secure on a 50 per cent basis \$692,000,000 of corporate currency and on a 33⅓ per cent basis \$1,038,000,000. Instead of a genuine gold reserve as represented, the bill legalizes the inflation of corporate paper currency to \$1,822,000,000 on a 50 per cent basis, or \$2,733,000,000 on a 33⅓ per cent basis by using silver and greenbacks in the central bank's reserve, without a single dollar of actual gold. If the \$1,057,464,264 of paper gold certificates also were drawn into such reserve the corporate currency could be swelled (without a dollar of gold in the reserve) to \$3,936,000,000 on a 50 per cent basis, or \$5,894,000,000 on a 33⅓ per cent basis. It is only a question of time when such optional corporate currency will become discredited and depreciated and cause ruinous losses to the people and all business.

The present paper currency (except gold certificates secured by 100 per cent of gold) is only \$346,000,000 greenbacks (secured by \$150,000,000 of gold), \$480,000,000 silver certificates (secured by an equal amount of silver), and \$744,000,000 of bank-note currency (secured by an equal amount of United States bonds); total, \$1,570,000,000.

The Aldrich money plan is wildcat inflation and not "reform." Those who contend that its possible unlimited issues of corporate currency with that kind of doubtful reserves and no Government guaranty would be sound will not challenge the soundness of a limited issue of public currency guaranteed by the

United States, made full legal tender by law for all purposes, redeemable in and secured by actual gold in adequate volume.

The American Bankers' Association and distinguished financiers now officially committed to the Aldrich corporate currency can not successfully attack the safety and soundness of this proposed gold-secured Government money. No cry of "rag baby," "irredeemable greenbacks," "unsound inflation," "unlimited paper currency," or "fiat" can be raised to prejudice the people against this patriotic plan, for all currency will be founded on, redeemable in, and limited by actual gold. And it also will help maintain the existing gold standard.

OUR BIG STOCK OF GOLD.

The United States Government had in its possession June 30, 1912, $1,207,464,264 of actual gold. Of this $1,057,464,264 is held to protect an equal amount of gold certificates (a 100 per cent gold reserve) and $150,000,000 to "secure" the $346,000,000 of greenbacks. Besides this there is $623,818,171 of gold in banks and in circulation. Our total stock of gold October 1, 1912, was $1,841,382,435.

During the fiscal year 1912 orignal deposits of gold with the Government in exchange for gold certificates aggregated $151,929,883. Of this the mines of the United States produced $96,890,000. As the industrial consumption of new gold was $31,439,347 and $151,929,883 was sold to the Government for monetary uses, total $183,369,230, there must have been $86,479,230 of gold from abroad or sources other than the year's production of our own mines. If there is no further increase in the yearly gold output and the 1912 average production and industrial consumption is maintained, our mines each year will add $65,450,653 to our monetary gold reserve without a dollar of gold coming from abroad. This gold would enable a yearly currency increase of $130,000,000 on a 50 per cent gold reserve basis, or $256,000,000 on a 33⅓ per cent basis. But if the same amount comes from abroad each year and our increase of monetary gold continues to be $150,000,000 annually, this put into the reserve would permit an annual currency increase of $300,000,000 on a 50 per cent or $450,000,000 on a 33⅓ per cent basis. If gold increased faster than the need for currency the gold reserve can be raised above 50 per cent.

The actual increase in the general stock of money of the United States during the fiscal year 1912 was only $92,911,673, the total stock of money of all kinds now being $3,648,870,650. This indicates that without issuing bonds or resorting to any unusual effort or expense, the Government will get enough gold simply by exchanging at par therefor its gold-redeemable paper currency to enable it to increase the public currency much faster than the growth of population and still always maintain behind all currency a reserve of actual gold of 50 per cent or more.

WORLD STRUGGLE OVER GOLD.

This will put the United States in a stronger monetary position than any other Government in the world. It has a fourth and soon will have a third of all the gold in the world. It will be impregnable, with practicable means for defending the commerce and business of this country if in future years a declining gold production should cause a titanic struggle between the great nations of the earth for physical possession of gold with which to settle international balances and pay the interest on government bonds and other gold obligations.

It is possible if not probable that such a contest will occur. It may be years ahead or very soon, according to future conditions. Gold mines are being worked out and abandoned every year. It is considerable of a gamble whether new discoveries will keep pace with the exhaustion of known bodies of gold ore. On the other hand, the demand for gold for both industrial and monetary uses is steadily and enormously increasing.

China, with a quarter of the world's population, soon will change from silver to a gold basis. Other countries will likely do the same. The volume of internatinal commerce that is settled for with gold is growing prodigiously. There are 39 billions of the bonds of various governments all payable, principal and interest, in gold. The gold-payable State, city, country, school, and corporation bonds greatly exceed this volume of Government bonds. Wars and rumors of wars are constantly increasing the total of the world's bond obligations. The 46 nations of the earth together possessed in 1908 but $6,604,000,000 of gold. The total now is ness than 7 billions. Much of this is hoarded in Government reserves and is not available for current commercial use. The yearly

interest on all kinds of bonds that are payable in gold nearly equals the world's entire stock of gold. Besides this, probably more of the principal of such bonds mature each year than all the gold in existence. What will happen if at some future time payments, principal and interest, are demanded in actual gold, according to the provisions of such bonds?

When that day comes, if ever it does, the United States will be in the best position of any country, provided its monetary system is reorganized and perfected on a practical basis that will enable it to hold and use its vast gold accumulations in an effective and rational way. Its resources, increasing wealth, large international trade balance in its favor, and its comparatively low expense for military establishment all tend to strengthen its relative position year by year. But it should develop and improve its monetary defenses now in time of financial peace before any crisis comes. Particularly so because the gold standard law of March 14, 1900, granted the power and imposed on the Government the obligation to issue its interest-bearing bonds, in unlimited quantities whenever necessary to get gold with which to maintain the gold standard and make gold payments for currnecy and other obligations. As the Government is now legally liable to an unlimited extent to maintain the gold standard and all kinds of money on a par with gold, it would seem wise that it be equipped without delay with the best possible machinery for protecting itself and the people against such liability in the possible event of future trouble. As this liability is on the Government itself, the machinery for dealing with the situation should be absolutely and exclusively controlled by the Government for the common good. To put the currency machinery under the control of private interests and still leave the Government liable for maintaining the gold standard and gold payments would be unbusiness-like, a reckless and inexcusable folly. If such control, even indirectly, ultimately fell into the hands of American representatives of the great private and corporate international owners of the billions of maturing gold bonds of the world, they would have in their own hands a perfect instrument for forcing the United States into debt countless millions of dollars and saddle upon the people an annual interest burden of enormous proportions, all without the slightest benefit to the Government or the people. By demanding gold payments they could in time force the Government to issue bonds to buy back from them at high prices the same gold. And this could be worked again and again, an endless chain, a great bond trap baited with gold. But so long as the Government retains in its own hands exclusive control of the gold reserve and the public currency it is safe, provided it reorganizes the system in the public interest instead of for the benefit of selfish special privilege. The plan adopted should give the Government power to compel the 25,000 banks to aid the Government in maintaining the gold standard and the gold reserve. Otherwise the Government always will be in a dangerous position.

MONEY REORGANIZATION PLAN.

Congress should by law provide for the gradual cancellation of all gold certificates, silver certificates, greenbacks, and bank-note currency as such currency comes in from time to time, and the substitution of one kind of Government money issued against a gold reserve of at least 50 per cent. On June 30, 1912, the Government had on hand $1,207,464,264 of gold. By June 30, 1913, it will have $1,350,000,000. This does not include the $623,000,000 of gold in circulation, most of which soon would flow into and swell the gold reserve. On a 50 per cent reserve this will enable an issue of $2,700,000,000 of Government currency, or more than enough to retire all kinds of paper currency (including gold certificates), which now totals about $2,600,000,000. And when the exchange is completed the Government will own the $744,000,000 of 2 per cent United States bonds now owned by the banks and used to secure an equal amount of bank-note currency. The banks will be paid par for the bonds in the new national currency. The Government will have converted most of its interest-bearing bonds into noninterest-bearing currency. All these things can be done in a relatively short time and practically without expense to the Government. And it will save the people more than a billion dollars of future interest expense that would have to be paid if the 20 per cent bonds were refunded at 3 per cent and run for 50 years, as proposed by the Aldrich plan, besides final payment of the principal of the bonds.

The only thing that stands in the way of the adoption of such a patriotic and simple plan for practical and scientific reorganization of the Nation's

money supply is the selfish desire of private interests to get control of the public currency away from the Government and into their private hands for their own special profit and advantage. They pretend to fear that if the people control they some time might overinflate the volume of money. There is greater danger to the country from panics or stringencies due to sudden, excessive, and repeated contraction of the currency under private control than from inflation under public control. And with a fixed minimum gold reserve provided in the law there can be no danger of any excessive currency inflation. If the law permits the running of the gold reserve down to not less than 33⅓ per cent (a basis considered entirely safe in European countries) the difference between 50 and 33⅓ per cent will also provide a splendid special emergency circulation of $1,350,000,000 that can be used when necessary under proper safeguards to impart the desired elasticity to the public currency and protect the banks and all business in times of panic. This besides a billion of bank reserves.

A law thus reforming our present currency and banking systems on a progressive, permanent, and sound basis in the interest of all the people would be a great national blessing second only to the Constitution. If we play the game right the United States, with its grip on a big share of the world's gold, soon will largely control in the interest of all its inhabitants the world's finances and commerce.

EXHIBIT B.

A BILL To provide for the establishment of the United States monetary council and to define its duties and powers, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

UNITED STATES MONETARY COUNCIL.

That a department of the Federal Government to be known as "United States monetary council" (hereinafter called "council") is hereby created and granted discretionary power and full and exclusive control for the Federal Government of all matters pertaining to banks and banking and the authorization, supervision, dissolution, taxation, and regulation thereof and the creation, issuing, cancellation, custody, and disposal of the public coin and currency of the United States and regulation of its volume and the interest or tax charged for same, and the coin, currency, and bank reserves and the establishment and maintenance of the gold standard of value as now provided by the laws of the United States, and in the manner provided in such laws or otherwise, and such other powers and duties as the Congress in this act or in subsequent acts may authorize, subject only to the limitations of the Federal Constitution and the provisions of this act. And the council shall become a coordinate branch of the Federal Government on a par with the executive, legislative, and judicial branches and have the same supreme and exclusive control over its functions and the matters within its jurisdiction whenever an amendment to the Federal Constitution constituting the council such a coordinate branch is lawfully adopted.

SEC. 2. The council is hereby granted perpetual corporate existence and powers, and the right to make and perform contracts, its charter being the provisions of this act, subject only to the limitations of the Federal Constitution, but it shall be a public corporation and not a private vested right, and all its franchises, privileges, and property shall be owned exclusively by the Federal Government forever. But to preserve an orderly business procedure all business transactions between the Federal Government and the council shall be as if they were entirely separate from each other.

The business and affairs of the council shall be conducted in the name "United States monetary council," or, for brevity, "U. S. monetary council," by which name it may sue or be sued in any Federal court and in such courts only, and have a corporate seal, but no action for damages against the council shall be lawful, nor against any of its officers, agents, or employees on account of their official acts.

SEC. 3. The council is hereby granted authority to make, alter, suspend, repeal, and enforce any and all general ordinances for the regulation of all

persons and corporations subject to its regulation, and such specific orders as it may deem necessary for the administration of the matters within its jurisdiction, and rules and regulations for the government and guidance of the council, its officers, agents, and employees, the conduct of its business, and the actions of those subject to its regulation, such ordinances, orders, rules, and regulations not to be inconsistent with the Federal Constitution or the provisions of this act.

Any Federal court of the United States on the application of the council shall, with or without hearing, by order, injunction, mandamus, decree, or otherwise, enforce the ordinances, orders, rules, and regulations of the council; and the council is hereby granted authority to enforce its ordinances, orders, rules, and regulations itself through its own officers, attorneys, agents, and employees as it may determine.

No appeal from any ordinance, order, rule, or regulation of the council shall lie except to a Federal court, and any appeal made shall be only on the ground that the ordinance, order, rule, or regulation appealed from is a violation of the Federal Constitution or the provisions of this act. In any court proceeding for or aganist the council the council shall be represented by its counsel, officers, agents, or employees, and on its request by the Attorney General of the United States or his assistants. On the request of the Attorney General, or on their own motion, the Federal courts shall expidite cases to which the council is a party. Any ordinance, order, rule, or regulations of the council appealed from shall remain in force and be complied with pending final decision of the appeal, except while temporarily suspended after preliminary hearing by order of the court before which such appeal is pending; and when the court shall decide that such appeal or any case against the council was a captious appeal or case or not made in good faith it shall require the party making such appeal or bringing such case to pay to the council not more than $5,000 in addition to the costs to be fixed by the court.

ORGANIZATION OF THE COUNCIL.

SEC. 4. The council shall consist of 16 members and all living former Presidents of the United States; such former Presidents and the Secretary of the Treasury, Secretary of Agriculture, Secretary of Commerce, and Secretary of Labor shall be ex officio members; the other 12 shall be appointed for eight years by the President, with the advice and consent of the Senate, with due regard to their special qualifications, but without regard to their party affiliations, and each appointed member and each former President of the United States shall receive a salary of $10,000 per annum, payable in monthly installments. The appointed members shall give their entire time to the council, and the ex officio members such time as the council may request: *Provided*, That in the first instance the President shall designate 3 of the 12 appointed members to serve until March 4, 1916, 3 until March 4, 1918, 3 until March 4, 1920, and 3 until March 4, 1922; and vacancies shall be filled in the same manner.

Any appointed member may be suspended, with or without salary, for not more than one year by the President or Senate on the filing of sworn charges reflecting on his honesty, fidelity, or efficiency, and he may be removed for cause by the joint action of the President and Senate on the initiative of either after public trial before a trial commission of two, one appointed by the President and one by the Senate, and the filing of the report of such commission and its recommendations with the President and Senate.

SEC. 5. The council shall, on the order of the President, convene and organize as soon as practicable after the members are appointed and confirmed. It shall elect from among its appointed members a president and two vice presidents, such offices to be so filled annually at the annual meeting held in the month of February on a date fixed by the council. The council shall appoint from its membership or otherwise a governor, to be the executive head of the council and the director of its business affairs, and two vice governors to assist the governor, and such deputy governors and assistants as may be deemed necessary for the management of the business of the council and its branches, and such other officers, agents, attorneys, and employees as the council may deem necessary, with power in the council to suspend or remove, with or without cause, any of its appointees or employees and to determine and pay their salaries or compensation; and all officers, agents, attorneys, and employees shall be under the control of the council and subject to its will and have such duties and powers as the council may prescribe.

SEC. 6. The principal office of the council shall be in the city of Washington, in the District of Columbia, but the council is hereby authorized to establish and maintain its branch offices in such places in the United States and foreign countries as it may from time to time decide to be necessary for the purposes of its business, and it is authorized to buy, sell, rent, lease, own, and hold real estate and buildings and personal property in the United States and foreign countries for such uses and any purposes of its business.

Suitable quarters in the Treasury and Subtreasury Buildings of the United States shall be placed at the disposal and under the control of the council without charge, expense, or unnecessary delay, and also in the same manner suitable space in the post offices of the United States for branch offices of the council and suboffices where it may desire to open offices, the Postmaster General and the council to cooperate in such matter.

APPROPRIATION AND PROFITS.

SEC. 7. Five million dollars is hereby appropriated out of any unappropriated money in the general fund of the Public Treasury, and same shall be placed permanently under the control and at the disposal of the council as soon as it has organized.

All profits realized from the operations and business of the council and all the property and franchises of the council shall belong to the Government of the United States, but shall be held and used by the council, at its discretion, for the purposes of this act: *Provided*, The council from time to time may transfer to the Public Treasury to the credit of the general fund, for the use and benefit of the Federal Government, such portions of the council's accumulated net profits as it deems unnecessary to hold and use for the purposes of this act.

The council is hereby authorized to incur any expense, obligation, or liability and to audit and pay the same from any moneys under the control of the council, but not otherwise.

SEC. 8. The office of the Comptroller of the Currency is hereby abolished, and the duties and powers heretofore exercised by that official are by this act vested in the council. So much of the duties and powers of the Secretary of the Treasury, Treasurer, and other officials of the Federal Government and of other departments of the Federal Government as pertains to the matters committed to the care or control of the council by this act or other acts that may be passed by the Congress are hereby taken from such officials and departments and vested in the council, to be exercised under the provisions of this act, subject only to the limitations of the Federal Constitution; the intention being to separate the power and duty of regulating banking and the coinage and currency from the ordinary financial affairs of the Federal Government and segregate the same in the council.

SEC. 9. The council shall be the fiscal agent of the Federal Government without charge for its services. All receipts of the Federal Government shall be promptly deposited with the council, and all disbursements of the Federal Government shall be made by checks, drafts, or orders of the Federal Government on the council or in other manner mutually agreed upon by the Federal Government and the council.

UNITED STATES MONETARY POLICY.

SEC. 10. It is hereby declared to be the constitutional right and duty and intention of the Federal Government, through its council as its agency, to exclusively provide the people of the United States with an adequate and sound medium of exchange in the shape of coin and currency money and means for getting the same into circulation among the people and imparting elasticity to its volume; and it is also hereby declared to be the policy of the United States to maintain the gold standard of value as now fixed by the laws of the United States, and that gradually and as soon as practicable the entire public currency of the United States shall be so reorganized that ultimately there will be but one kind of such public currency, in convenient denominations, namely, a paper currency that is the unconditional obligation of the United States and so states on its face, an unqualified legal tender in the United States and its dependencies for the payment of any purchase or debt or obligation, public or private, redeemable at its face value in gold at the present legal standard on the demand of the holder on presentation to the council or any of its branches within the United States, and secured by a reserve of at least 33⅓

per cent of its face value in actual gold coin or bullion at the present legal standard held for the purpose by the council, which currency the council is hereby authorized to issue on that basis and cancel and reissue from time to time in such volume as the council deems necessary to promote the general welfare, provide the people with an adequate and sound medium of exchange, and carry out the purposes of this act; and the council is hereby authorized and directed to provide an adequate and suitable supply of gold and silver coins and subsidiary metallic coins, gold coins of the present legal standard to be a full legal tender, and all silver coins of denominations less than a dollar to be a legal tender up to $10 and coins other than gold and silver a legal tender up to $1, and to reorganize as soon as practicable the public currency in accordance with the public policy declared in this section, and to that end it may gradually call in and cancel the United States gold certificates and replace the same with the new national currency authorized by this section, and use the gold coin and bullion now held to secure such certificates, to provide a reserve, and for the redemption of such new currency; and also similarly cancel and replace all other outstanding United States currency, including United States notes, Treasury notes, silver certificates, and bank-note currency, using the gold in the present Federal gold reserve to help create a gold reserve behind such new currency; and the silver coin and bullion now securing outstanding silver certificates shall, as such certificates are canceled, be used and counted at its current gold value as part of the required gold reserve securing such new national currency and for subsidiary coinage purposes, including silver dollars, of the present legalized weight, character, quality, and tender value, and redeemable at their face value in gold at the present lawful standard.

UNITED STATES BONDS AND BANK CURRENCY.

SEC. 11. Hereafter no national banking association shall increase the volume of its bank-note currency secured by United States bonds above the amount now outstanding or above the amount to which it may be reduced, and after its bank-note circulation is all retired it shall not again issue bank currency that has the appearance of or is intended to circulate as money, and no other bank or trust company qualified to enjoy the privileges of the council under this act and no other bank, corporation, association, clearing house, firm, or individual shall issue or circulate currency or coin, or certificates designed to circulate as money, except the currency and coin now outstanding authorized by any act of the Congress and currency and coin and certificates issued by the council under the provisions of this act.

The council is hereby authorized to gradually call in and cancel any or all of the bank-note currrency or circulation now outstanding, and when canceled it shall not be reissued. As such currency is canceled it may be replaced by new national currency issued by the council under the provisions of this act.

As such bank-note currency is called in or canceled, the council is hereby authorized to buy from the national banking association the 2 per cent United States bonds now used to secure such bank-note currency, paying for same by issuing to the national banking associations selling such bonds new national currency authorized by this act in amount equal to the par or face value of such purchased bonds and the interest then accrued thereon.

The United States bonds so purchased from the national banking associations shall be held or used by the council as an asset or otherwise disposed of as the council may determine.

NATIONAL AND STATE BANKS QUALIFIED.

SEC. 12. The council by order or rule may qualify any national banking association, bank, or trust company incorporated under the general laws or any special law of the United States or of any State of the United States that complies with the provisions of this act to enjoy the benefits, privileges, and protection of the council and be subject to the duties, liabilities, limitations, and obligations imposed or authorized by this act.

To become thus qualified each such national banking association, bank, or trust company shall make written application to the council in form and on the terms and under the conditions prescribed by the council, accompanied by satisfactory evidence that the corporation making such application has legally authorized the same and that stockholders owning at least 51 per cent of the

entire outstanding capital stock of such corporation have legally consented to such application.

Any national banking association so applying shall be so qualified by the council, and all national banking associations refusing or neglecting for one year after the organization of the council to so apply to the council for such qualification shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have previously been incurred. Any such corporation other than national banking associations shall apply to the council for qualification in the same manner and form and under the same terms and conditions as national banking associations, and shall also legally bind itself in form and manner satisfactory to the council to thereafter permanently be subject to the regulation, supervision, and examinations of the council to the extent and manner exercised by the council over national banking associations, including maintenance of a minimum cash reserve of 15 per cent of its total deposit liabilities and the permanent and continuous deposit of at least two-thirds of such minimum cash reserve with the council, subject to the provisions of this act and compliance with the ordinances, orders, rules, regulations, and requirements of the council. No corporation so qualified by the council shall have any legal right to withdraw from such system or qualification or escape such regulation by the council and compliance with the provisions of this act except on the formal order of the council allowing such withdrawal and on the conditions stated in such order; but under no circumstances shall a national banking association be allowed to withdraw except when such corporation is legally dissolved or ceases to exist.

Every corporation so qualified shall, as a legal right, enjoy the benefits of the council so far as practicable without discrimination or favoritism while such corporation is in good standing with the council and complies with the provisions of this act, all laws of the United States and the ordinances, orders, rules, and regulations of the council.

The council may suspend any qualified corporation from any or all of the benefits, privileges, and protection of the council for such time and on such terms and conditions as it may prescribe and include in its suspension order whenever such corporation violates or neglects, or refuses to comply with the provisions of this act, the laws of the United States, or the ordinances, orders, rules, regulations, or lawful requirements of the council, or the council under such circumstances may expel such corporation or impose any other penalty the council may prescribe within the limitations of the Federal Constitution, except that national banking associations shall not be expelled, but the council may for cause forfeit their charters.

It shall be unlawful for any corporation that is, or hereafter may be, subject to regulation by the council under this act, or otherwise, to violate or fail to comply with any provisions of this act or aid in such a violation or failure, or for any officer, director, stockholder, agent, or employee of such a corporation to violate or fail to comply with any provision of this act, or by any act or omission contribute to the violation of, or failure to comply with any provision of this act by any such corporation or any other corporation or person; and the council in its discretion may suspend or forfeit the charter of any such corporation or prescribe such other punishment as it may determine for any offense against the provisions of this section, and the violation of any provision of this section by any corporation or person shall be a misdemeanor punishable by fine of not more than $10,000 in case the offender is a corporation, and a fine of not more than $10,000, or imprisonment in the penitentiary not more than three years, or both such fine and imprisonment if such offender be a person.

Sec. 13. Any bank, banking association or trust company incorporated by special law of any State or of the United States, or organized, or that hereafter may be organized under the general laws of any State of or the United States, and having an unimpaired capital sufficient to entitle it to become a national banking association under the laws of the United States, may, by the consent in writing of the stockholders owning not less than 51 per cent of the capital stock of such bank, banking association, or trust company, and with the approval of the council, become a national banking association under its former name or by any name approved by the council. The directors thereof may continue to be the directors of the association so organized until others are elected, or appointed in accordance with the provisions of the law. When the council has given to such bank, banking association, or trust company a

certificate that the provisions of this act have been complied with, such bank or banking association or trust company and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulation in all respects as shall have been prescribed for national banking associations organized under the laws of the United States.

SEC. 14. All banking associations, banks, and trust companies that become qualified to enjoy the benefits, privileges, and protection of the council or subject to its regulation shall be deemed national banking corporations clothed with a public interest and charged with duty of giving to the public good service at reasonable rates, and such corporations shall be subject to public regulation by the Federal Government acting through the council; and only such banking corporations shall use the words "national" or "Federal" in their names or be national or Federal banking institutions. Such qualified banking corporations shall be eligible and available for use by the council for the purpose of getting the public currency and coin of the United States into circulation among the people for the general welfare, on such terms and conditions and in such volume as the council from time to time may determine, subject to the limitations of the Federal Constitution and the provisions of this act. Any and all charges made by the council to any such national banking corporation for loans or the use of coin and currency or credit furnished by the council or for the privilege of obtaining, using, or circulating the same under this act, or otherwise, may be considered as a franchise tax paid for such privileges, and the other benefits and powers conferred by this act, or otherwise, whether such charges are called in this act a tax, or interest, or otherwise.

SEC. 15. That from and after the passage of this act the stockholders of every national banking association and every other bank and trust company that is or hereafter may be qualified or subject to regulation under this act shall be held individually responsible for all contracts, debts, and engagements of such national banking association, bank, or trust company, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any such national banking association, bank, or trust company who shall have transferred their shares or registered the transfer thereof within 60 days next before the date of the failure of such national banking association, bank, or trust company to meet its obligations shall be liable to the same extent as if they had made no such transfer; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure. Section 5151, Revised Statutes of the United States, is hereby reenacted except in so far as modified by this section.

BANK EXAMINATIONS.

SEC. 16. That the examination of the affairs of every national banking association authorized by existing law and of every banking corporation, bank, or trust company qualified to enjoy the privileges of the council or subject to its regulation shall take place at least twice in each calendar year and as much oftener as the council shall consider necessary in order to furnish the council with a full and complete knowledge of the condition of such corporation and the character and value of its assets, and the council may at any time direct the holding of a special examination. The person assigned to make any such examination shall have power to call together the officers and a quorum of the directors of the institution he is assigned to examine, who shall, under oath, state to such examiner (in writing when he requests it) the character and circumstances of such of its loans or discounts as he may designate, and a false statement so made in regard to such matters shall be perjury and be punished as such under the laws of the United States relating to perjury.

From and after the passage of this act all bank examiners shall receive salaries fixed and paid by the council. But the expense of the examinations provided for in this act shall be assessed by the council upon the said institutions so examined in proportion to the assets or resources held by such institutions upon a date during the year in which such examinations are held to be established by the council. The council shall so arrange the duties of bank examiners that no two successive examinations of any such examined institution shall be made by the same examiner.

SEC. 17. That no banking association, bank, or trust company subject to examination or regulation under this act shall directly or indirectly hereafter

make any loan or grant or offer any gratuity to any examiner of such banking association, bank, or trust company. Any banking association, bank, or trust company offending against this provision shall be deemed guilty of a misdemeanor and shall be fined not more than $5,000, and the further sum equal to the amount so loaned or gratuity granted or offered; and the officer or officers of such banking association, bank, or trust company making or offering such loan or gratuity shall likewise be deemed guilty of a misdemeanor, and shall be fined not to exceed $5,000 and imprisoned in the penitentiary not more than three years. Any such examiner accepting a loan or gratuity from any banking association, bank, or trust company examined by him, except when done with the approval of the council to obtain evidence, shall be deemed guilty of a misdemeanor and shall be fined not more than $500, and a further sum equal to the money so loaned or gratuity accepted, or imprisoned not more than one year, or both, and shall forever thereafter be disqualified from holding any office under the laws of the United States unless pardoned by the President of the United States.

No officer or director of any national banking association or other bank or trust company that is or hereafter may become subject to regulation under this act shall receive or be beneficiary, directly or indirectly, in any fee, brokerage, commission, gift, or other consideration for or on account of any loan, purchase, sale, payment, exchange, or transaction made by or on behalf of a national banking association, bank, or trust company, of which he is an officer or director, and any such officer or director violating this provision shall be punished by a fine of not exceeding $5,000, or a term in the penitentiary not exceeding three years, or both such fine and imprisonment.

LEGAL CASH RESERVES OF BANKS.

SEC. 18. From and after the passage of this act the minimum legal cash reserve of each national banking association and of each other bank, banking association, and trust company qualified under the provisions of this act or any future act to enjoy the privileges of the council, or which is subject to regulation by the council, shall be a sum equal to 15 per cent of the total deposit liabilities of such banking association, bank, or trust company, and its cash reserve at no time shall be below that amount; and that at least two-thirds of such legal minimum cash reserve shall at all times be kept on deposit with the council subject to use by the council for its purposes; and the other one-third of said minimum legal cash reserve shall be kept in the vault of such banking association, bank, or trust company or on deposit with other banking associations, banks, and trust companies qualified and subject to regulation by the council; but no greater amount of such reserve shall be deposited in any banking association, bank, or trust company than would equal 10 per cent of the unimpaired capital and surplus of the depositing bank or of the banking association, bank, or trust company receiving such deposit.

The council is authorized to pay for the use of such bank reserve deposits and for deposits made by the Federal Government not to exceed 2 per cent per annum payable semiannually, but averaged and computed monthly. The council shall accept deposits in the United States from only the Federal Government and the banking associations, banks, and trust companies qualified and subject to regulation by the council, and postal savings deposits, which hereafter shall be deposited with the council or its branches or suboffices as soon as practicable after they are received by post offices, the council assuming the payment of the 2 per cent interest on such postal savings deposits provided by law; and the council is hereby granted authority to regulate and control for the Federal Government the postal savings system established by law, and when prepared to do so the council shall take charge and exclusive control of and thereafter conduct such postal savings system and each of the offices thereof in the post offices of the country or elsewhere, and the Postmaster General of the United States and his department shall cooperate in the matter and facilitate the transfer of such system to the care of the council and the subsequent conduct of the business by the council in any or all of the post offices of the United States and its dependencies where the council shall decide to establish or maintain postal savings branches; and the council is authorized to establish and maintain branches or offices or suboffices for the conduct of its own business in such post offices and in connection with such postal savings branches and in charge of the same persons as agents or employees of the council or otherwise; and the council shall be furnished without charge ample and suitable facilities in such

post offices for the establishment and transaction of such business; the council, however, in its discretion, may leave the postal-savings system in the custody of the postmaster and his employees as now provided by law in any post office except that the postal savings deposits shall be deposited as soon as practicable after being received with the council or its branches; and it shall be lawful for the council to commission any postmaster of the United States or its dependencies to act as its agent for the purposes of the business of the council and to require bond or security from such postmaster, whose compensation shall be fixed and paid by the council.

The council at all times shall have a first and paramount lien on the cash reserve deposits and any other deposits of any qualified bank, banking association, or trust company in the hands of the council or under its control to secure the council for any debt, obligation, or direct or indirect liability of such bank, banking association, or trust company to the council for loans of currency or coin or credit, or otherwise, and also upon the assets and property of such bank, banking association, or trust company, and all securities or other property put up as collateral security with the council; and the council is hereby authorized to pay itself from such deposits or money or property under its control belonging to any such institution for any past due debt, obligation, or liability, direct or indirect, of any such bank, banking association, or trust company to the council and for any costs or expense due to any default in payment; and the council may sell at public or private sale, with or without notice, and itself buy and resell any securities or property, real, personal, or mixed, it holds or has a claim upon or against to secure any such past-due debt, obligation, or liability; and any and all deposits or property held by or belonging to or under the control of the council or any of its branches shall be exempt from seizure and not subject to attachment, garnishment, or execution under a writ, order, or decree of any court, whether such securities or property belongs to the council or otherwise.

Any national banking association may be allowed by the council to deposit with the council the two-thirds of its minimum legal cash reserves in installments from time to time extending over a period of not more than one year from the date on which the council organized, and such national banking association may deposit with the council 2 per cent United States bonds now used to secure bank-note currency, on the cancellation of such currency, to an amount not exceeding one-third of its total minimum legal cash reserve, and such bonds may be counted as part of that portion of its minimum legal cash reserve to be deposited with the council under this act; and such bonds thereafter shall belong to the council as an asset and be used as it may determine.

The council shall have authority to at any time require any banking association, bank, or trust company subject to its regulation to pay in gold coin or bullion at the present legal standard value any debt, obligation, or liability of such corporation to the council, and when it considers that the public interest demands it, the council may require such corporations to obtain such gold coin or bullion in other ways than by the presenting for redemption coin and currency of the United States, and from sources other than the gold reserves and deposits of the council and the Federal Government. One-half of any cost or expense incurred by the council or the Federal Government at any time in obtaining gold coin or bullion and making it available for the purpose of maintaining the gold standard of value and the coin and currency of the United States in accordance with the laws of the United States and as provided in the act of Congress passed on March 14, 1900, shall be paid by the banking corporations subject to regulation by the council and be apportioned between such corporations by the council in accordance with their total assets or resources, respectively, and be paid to the council during the months of January and July of each year.

Sec. 19. The council may establish and maintain and conduct in connection with its various branches and suboffices, situated in the United States post offices or elsewhere, as the council may determine, clearing-house facilities for the better carrying out of the purposes of this act and the convenience of the banking associations, banks, and trust companies subject to regulation by the council and under the conditions and on terms and plans prescribed by the council.

The council is authorized to contract with any banking association, bank, or trust company subject to regulation by the council for room or space in such bank or trust company for use by the council for one of its branches or sub-

offices and for the safe keeping or custody of any and all moneys, papers, securities, or property of the council on terms and conditions to be mutually agreed upon.

The council is hereby empowered to create, establish, and conduct insurance funds or companies or to authorize and to supervise and regulate the same, under such name or names and with such rights, duties, and powers as the council may prescribe for the purpose of insuring the safe storage, shipping, or transportation of money, securities, coin, currency, papers, checks, drafts, notes, and other property or things approved by the council, and the guaranteeing or protection against loss in such matters the Federal Government and its several departments and officials and employees, the council and its branches and suboffices and officers, agents, and employees and the qualified banking associations, banks, and trust companies subject to regulation by the council, and also for the bonding of the officers and employees and agents of the Federal Government and its various departments and of the council and the qualified banking associations, banks, and trust companies, subject to regulation by the council; and such other persons and corporations as the council may determine; and also the creation or authorization and supervision and regulation of associations, funds, or corporations for the purpose of guaranteeing bank deposits and the solvency of banking associations, banks, and trust companies subject to regulation by the council and insuring the same against loss and similarly insuring any depositor in any such banking institution against loss by reason of making deposits in such banking institution; all as the council may determine; and the council may act as trustee or custodian for the funds of such insurance corporations, funds, or associations.

The services of the secret-service officials and employees of the Federal Government and its departments and of the United States district attorneys and marshalls and their assistants and deputies is hereby placed at the disposal of the council on its request to further the purposes of this act.

SEC. 20. Each national banking association, bank, and trust company incorporated under the general laws or any special law of the United States or any State, except mutual savings banks owned by and run for their depositors exclusively, shall every year pay to the Federal Government an internal-revenue tax of 1 per cent on the average total deposit liabilities of such national banking association, bank, or trust company, such tax to be payable in semiannual installments on January 1 and July 1, but shall be averaged and computed monthly: *Provided*, That a sum equal to ten times the amount of the legal cash reserves of such national banking association, bank, or trust company on deposit with the council shall be deducted from such taxable total deposit liabilities and said tax shall be computed and paid only on the amount remaining after such deduction is so made. Authority to so levy, compute, and collect such tax for the benefit of the Federal Government and to prescribe and enforce penalties for its nonpayment is hereby granted to the council; and in order that such tax may be levied intelligently and justly and collected fairly the council is hereby authorized, at its discretion, to investigate and examine the business and affairs of all such banking associations, banks, and trust companies, whether subject to regulation by the council or not in such manner and as often as the council may deem necessary, and it may require from time to time sworn written reports in form and substance satisfactory to the council from each corporation hereby made subject to such tax. The council shall pay such tax so collected into the general fund of the Treasury of the United States after deducting therefrom and retaining its cost of levying, computing, and collecting such tax, making such investigations, and getting such reports.

Every unincorporated association, firm, or individual using the word "bank" or "trust company" in his or its name or the word "banker" or "bankers" after his or its name on his or its signs, letters, or advertisements, and who or which receives demand or time deposits of money or credits shall a like internal-revenue tax in the same manner and be subject to the same investigations and reports required of incorporated institutions by the provisions of this section.

Any banking association, bank, or trust company, association, firm, or individual mentioned in this section as subject to such internal-revenue tax refusing to permit the investigation or refusing or neglecting to make the report authorized or required by this section or making any false report shall be deemed guilty of a misdemeanor and for each offense shall pay a fine of not exceeding $5,000 and the costs fixed by the court.

All money, securities, and other property owned by the council and all coin and currency and bullion and other property belonging to the Federal Government and in the possession or under the custody of the council, and all moneys belonging to qualified banking associations, banks, and trust companies subject to regualtion by the council comprising part of the minimum legal cash reserves of such banking associations, banks, and trust companies that is on deposit with the council shall be exempt forever from taxation under any and all laws of the United States or of any of the United States.

LOANS MADE ON COMMERCIAL PAPER.

SEC. 21. For the purpose of getting the public currency into circulation among the people for the public good and to further the lawful purposes of this act, the council is hereby authorized:

(*a*). To loan any qualified banking association, bank, or trust company from time to time while it is in good standing with the council and which complies with the ordinances, orders, rules, regulations, and requirements of the council public coin and currency of the United States issued under the provisions of this act and other moneys and deposits under the control of the council and credit based thereon, in such sums and at such times and on the terms and conditions fixed by the council. The amount so loaned shall not aggregate at any one time more than a sum equal to the paid-up capital stock and surplus of such banking association, bank, or trust company to which such loan or loans are made; and all such loans shall be secured as provided in or authorized by this act.

(*b*) To accept as security for loans described in paragraph (*a*) of this section notes and bills of exchange arising out of commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, the council to have the right to determine or define the character, quality, and eligibility of the paper thus offered for such security, within the meaning of this act; but notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities shall not be eligible for such purpose, except notes or bills having a maturity of not exceeding four months and secured by United States bonds or bonds issued by any State, county, or municipality, or school district of the United tSates. All notes and bills admitted for security under this paragraph must when admitted have a maturity of not more than four months and bear the unqualified indorsement of the qualified banking association, bank, or trust company offering the same to the council as security, and such banking association, bank, or trust company shall remain liable to the council on such indorsement until such notes or bills are paid or withdrawn from the council, even if such notes or bills should not be protested for nonpayment when due; and the council in thus accepting such notes and bills, whether it discounts same or not, takes the same as collateral security for such loans and shall incur no responsibility to collect or protest such paper and no liability thereon or therefor, and whatever council may do in the matter shall be as accommodation agent for such banking association, bank, or trust company, but without agents' liability or responsibility: *Provided*, That at least 50 per cent of the total of such notes and bills so used for security by any qualified corporation shall when admitted have a maturity of not more than 60 days.

(*c*) To accept as security for loans described in paragraph (*a*) of this section acceptancies of such qualified banking associations, banks, and trust companies which are based on the exportation or importation of goods and which mature in not more than 90 days and bear the signature or binding indorsement of at least one qualified banking association, bank, or trust company in addition to the one presenting such acceptance to the council as security. The acceptances so admitted as security from any banking association, bank, or trust company shall at no time exceed one-half of the capital stock of the institution presenting the same to the council, and the said acceptances and the notes and bills admitted as such security shall at no time together aggregate a sum exceeding the total paid-in capital stock and surplus of such institution.

The aggregate of such notes, bills, and acceptances bearing the signature or indorsement of any one person, company, firm, or corporation presented for security to the council by any one banking association, bank, or trust company shall at no time exceed 10 per cent of the unimpaired capital and surplus of such presenting institution, except as to the indorsements of said presenting institution itself.

Any qualified banking association, bank, or trust company while in good standing with the council may, at its discretion, accept drafts or bills of exchange drawn upon it having not more than six months sight to run and growing out of transactions involving the importation or exportation of goods, but no bank shall accept such bills to an amount equal in the aggregate to more than one-half the face value of its paid up and unimpaired capital.

(*d*) To make to any qualified banking association, bank, or trust company, whenever in the opinion of council the public interest so requires, a special emergency loan on the direct obligation of such qualified institution, secured by the pledge and deposit of securities satisfactory to the council and at special emergency rates fixed by the council, but in no case shall the amount so loaned exceed three-fourths of the actual value of the securities so pledged or one-half of the amount of the paid-up and unimpaired capital of such qualified institution, such emergency loan to be independent of the restrictions of paragraphs (*a*), (*b*), and (*c*) of this section.

(*e*) To fix and from time to time change at will its tax or interest rate for loans under paragraphs (*a*), (*b*), and (*c*) of this section, such rate to be uniform throughout the United States.

(*f*) To fix at will in each case its interest rate on special emergency loans under paragraph (*d*) of this section and other loans.

(*g*) To purchase and sell in the open market, either from or to domestic or foreign banks or individuals, bankers' bills, cable transfers, and bills of exchange of the kinds and maturities of this section made eligible for security, whenever in the judgment of the council it is necessary to protect its gold reserve, promote the general welfare, or advance the interests or security of the council.

(*h*) To deal in gold and silver coin and bullion both at home and abroad, to make loans thereon, and to contract for loans of gold and silver coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds.

(*i*) To loan upon, invest in, buy and sell United States bonds and short-time obligations of the United States or its dependencies, or bonds of foreign governments, or of States, counties, municipalities, or school districts of the United States, using any deposits, surplus, currency, coin, or bullion under its control for the purpose.

(*j*) To make loans to the United States on its bonds or otherwise and fix the rate of interest on same.

(*k*) To open and carry on its books a credit deposit account for any qualified banking association, bank, or trust company, accepting for deposit in such account any public currency and coin of the United States, and of foreign Governments when authorized by the council, and such checks, bills of exchange, and other credit instruments as the regulations of the council may prescribe, and also to permit such qualified institution to draw its checks or drafts or sell exchange against its said credit balance as the council shall determine. But the council shall accept deposits in the United States only from the United States Government and its departments and agencies and such qualified banking associations, banks, and trust companies.

The legal cash reserve deposits of any depositor may be carried by the council in an account separate from such depositor's credit deposit account.

(*l*) To open and maintain banking accounts in foreign countries and agencies to collect, buy, and sell with or without its indorsement, through such correspondents and agencies, checks, or prime foreign bills of exchange arising out of the commercial transactions which have not exceeding 90 days to run and which bear the signature of two or more responsible parties.

(*m*) To make loans of the character authorized by this section to qualified national banking associations, banks, and trust companies subject to regulation by the council and accept as collateral security notes having a maturity of not more than six months secured to the satisfaction of the council by warehouse receipts for cotton, corn, wheat, or other commodities approved by the council, such warehouse receipts to be of a character and comply with the terms and conditions fixed by the council or secured by notes or bonds with a maturity of not more than two years when such notes or bonds are secured by a first mortgage on an improved farm worth at least double the amount of such mortgage or on other kinds of real estate of like double value approved by the council.

(*n*) To devise, design, print, and authorize the printing and require the use of distinguishing blank forms of notes and other instruments when such notes

or instruments are to be used to secure loans from the council under the provisions of this section and for the other purposes of this act and to prescribe the purposes for which such blank notes and other instruments can be used and the manner of using the same.

The use of any such distinguishing blank note or other such instrument for any other purpose or in any other manner than that authorized by the council shall be a misdemeanor, and the offending person or corporation shall be liable to a fine of not exceeding $1,000 for each offense. The council may reserve to itself the exclusive right to print and furnish such distinguishing blanks, in which case the engraving, printing, or circulating the same by any person not authorized by the council shall be deemed counterfeiting and shall subject the offending person to the same penalty prescribed by the laws of the United States for counterfeiting the currency or coin of the United States.

(*o*) To require from any qualified banking association, bank, or trust company, or other borrower, additional satisfactory security for any loan made under the provisions of this section or otherwise whenever the council shall deem itself insecure, and to require the reduction or payment of any such loan whether it is due or not due, and to declare any such loan due at any time.

(*p*) To devise and put into effect such plan or plans as it may approve for protecting or relieving any mutual savings bank or institution owned by and run for the benefit of its depositors in any emergency, the council to be the judge in each instance as to what is an emergency and what institutions are entitled to such relief within the meaning of this paragraph.

(*q*) To increase and decrease at will the volume of the public currency in circulation and its rates of interest and tax with the view to imparting safe, scientific, and beneficient currency and credit elasticity and thus help regulate and steady the general range of prices and interest rates to make the same more uniform and to discourage excessive or dangerous general speculation and encourage and protect sound business prosperity and to conserve the general welfare of all the people.

LOANS ON FARM LANDS.

SEC. 22. That any qualified national banking association, bank, or trust company subject to regulation by the council may make loans secured by first mortgage on improved farm land worth at least double the amount of such mortgage where such land is situated within 100 miles of the qualified institution making such loan, but no such loan shall have a maturity longer than two years or exceed a sum equal to one-fourth of the unimpaired capital and surplus of the qualified institution making such loan.

Such qualified institutions may make similar loans so secured on other kinds of improved real estate approved by the council worth at least double the amount of such loan and situated within 100 miles of the qualified institution making such loan, except that no such loan shall have a maturity longer than 1 year or exceed a sum equal to 10 per cent of the unimpaired capital and surplus of the qualified institution making such loan.

The aggregate loans on real estate made by any qualified corporation shall not exceed the unimpaired capital and surplus of the qualified corporation making such loans, except that they may aggregate a sum not exceeding 50 per cent of the bona fide time deposits of the qualified corporation making such loan.

SEC. 23. All losses, if any, sustained by the United States monetary council on its loans or in its transactions with banking associations, banks, and trust companies qualified under this act to enjoy the privileges of the council or subject to its regulation shall be paid by such qualified corporation in the following manner, namely, such losses shall be apportioned January 1 and July 1 each year between all of the said qualified banking associations, banks, and trust companies subject to regulation by the council, according to the size of their minimum legal cash reserves, respectively, at the time of the last official report and be collected from them by the council within 30 days after being so apportioned. No such qualified corporation shall be included in such apportionment unless it was qualified five months before such apportionment is made.

The net amount realized by the council from any claim or item that has been charged off as a loss and afterwards made good wholly or in part to the council by any qualified institution shall be applied in reduction of future

losses to be made good or paid by such qualified institutions as provided in this section.

SEC. 24. That so much of the provisions of section 5159 of the Revised Statutes of the United States, and section 4 of the act of June 20, 1874, and section 8 of the act of July 12, 1882, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States United States registered bonds to an amount, where the capital is $150,000 or less, not less than one-fourth of its capital stock, and $50,000 where the capital is in excess of $150,000, be, and the same is hereby, repealed.

SEC. 25. That so much of sections 2 and 3 of the act of June 20, 1874, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this act such fund of 5 per cent shall in no case be counted by any national banking association as a part of its lawful reserve.

FOREIGN BRANCHES.

SEC. 26. Any national banking association, bank, or trust company subject to regulation by the council possessing a capital of $1,000,000 or more may file application with the council, upon such conditions and under such circumstances as may be prescribed by the council, for the purpose of securing authorization to establish branches in foreign countries for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association, bank, or trust company, the foreign country or countries or the dependencies of the United States where the banking operations proposed are to be carried on and the amount of capital set aside by the said banking association, bank, or trust company filing application for the conduct of its foreign business at the branches proposed by it to be established in foreign countries. The council may by order reject or approve such application and authorize the establishing of such foreign branches at the place or places, under the conditions and on the terms specified in such order, which branches shall always be subject to the regulation and examination of the council to the same extent as the corporation of which they are branches. The costs of such examinations and regulation incurred by the council shall be paid by such corporation. Every such national banking association, bank, or trust company having authorized foreign branches shall conduct the accounts of each foreign branch independently of the account of other foreign branches established by it and of its home office, and shall at the end of each fiscal year transfer to its general ledger the profit or loss accruing at each such branch as a separate item.

BANKS CALLING LOANS IN CONCERT.

SEC. 27. That it shall be unlawful for any national banking association, or other bank or trust company subject to regulation by the council, to increase or decrease its loans, volume of discounts, or rates of interest or make or call in any loan for the purpose of influencing or changing the quotation prices of any security listed on any stock exchange or causing any panic or financial stringency or forcing the sale of securities or other property or influencing public opinion or the political action of its customers or others or the action of Congress or any Member thereof, or of the council or any member thereof, or any State legislature or member thereof; and it shall be unlawful for any two or more of such national banking associations, banks, or trust companies or any officers or directors thereof to enter into any agreement, arrangement, or understanding, direct or indirect, for the calling of loans or discounts in concert or cooperation by such banking institutions. Any violation of any provision of this section by any national banking association shall work an immediate forfeiture of the charter of such association, and the council may appoint a receiver therefor to take charge of such association and conduct the same or wind up its affairs, as the council is hereby authorized to do when any corporation subject to its regulation shall violate or refuse to comply with the provisions

of this act and the laws of the United States, and the violation of the provisions of this section by any other bank or trust company subject to regulation by the council shall be a misdemeanor punished by a fine of not exceeding $10,000; and each officer or director of such offending national banking association, bank, or trust company who shall assent to or coperate in such violation shall be guilty of a misdemeanor and be punished by a fine of not more than $5,000 or imprisonment in the penitentiary not more than three years, or by both such fine and imprisonment.

RAIDS ON UNITED STATES GOLD RESERVE.

SEC. 28. Any person instigating, organizing, or assisting in the organization or conducting of any raid or "run" upon the gold reserves or public currency supplies of the Government of the United States or of the council for the purpose of injuring the credit of the United States or the council or embarrassing the business or monetary affairs of the Federal Government or the council, or depleting such gold or currency reserves or the deposits of the council, or forcing the issuance of United States bonds, shall be deemed guilty of a treasonable felony and be punished by a fine of not less than $1,000 or more than $10,000 and imprisonment in the penitentiary not less than 1 year or more than 10 years.

SEC. 29. It shall be unlawful for any national banking association, bank, or trust company subject to regulation by the council, to directly or indirectly charge any customer or person or corporation for any time or demand loan or discount a rate of interest exceeding 7 per cent per annum, and the council may, at its option, forfeit the charter of any offending institution, and such offending institution shall be subject to have a receiver appointed by the council to conduct or wind up its affairs and shall be deemed guilty of a misdemeanor and be fined a sum equal to the principal and interest of such usurious loan or discount.

Discrimination between customers in the rate of interest paid depositors under similar circumstances and charged borrowers for a similar service by any national banking association, bank, or trust company subject to regulation by the council is hereby declared to be against public policy and unlawful, and the council shall have power to punish any offending institution by forfeiting its charter or otherwise.

SEC. 30. The council is hereby authorized to devise, install, supervise, and regulate a plan by which any or all depositors in qualified national banking associations, banks, and trust companies subject to regulation by the council are guaranteed or made secure against any loss due to the insolvency of any such institution or its failure to pay its obligations. For that purpose the council may require the establishment of a fund under the control and administration of the council sufficient to guarantee all such depositors and pay all losses due to any such insolvency or failure of any banking association, bank, or trust company subject to regulation by the council, and the council shall have authority to require all such banking associations, banks, and trust companies to make up and maintain such fund, all contributing thereto every six months, in proportion to their total assets or resources, respectively.

MONEY AND CREDIT MONOPOLY.

SEC. 31. The policy of the Federal Government has been, and is hereby declared to be, to encourage independent banking by separate corporations competing with each other without mutual restriction or restraint for deposits and loans, free banking supervised and regulated by the Federal Government to increase the efficiency and usefulness of such banks to the public and the safety of their depositors and stockholders; and it has been and is the policy of the Federal Government to discourage, and so far as practicable prevent, in the United States branch banking and the control or domination of two or more banks or trust companies by the same persons or interests and the alliance or combination between two or more banks or trust companies, except when there is a legal merger of two or more corporations into one, and any and all other devices and practices designed to restrain the freedom of money and credit, or to increase or maintain interest rates by agreement or understanding or interfere with the unobstructed play in such matters of the economic law of supply and demand, or tending to injuriously concentrate the control of the general supply of money and bank credit available for the use of business, or establish monopoly

or partial monopoly of those life agents of trade and commerce nationally or in localities, and the council is hereby directed to observe such policy so far as practicable, and it is hereby granted authority and power to take such action as it may deem necessary to that end.

FARM-CREDIT BANKS.

SEC. 32. The council is hereby empowered to authorize the formation of national banking associations, to be known as "farm-credit banks," anywhere in the United States and its dependencies, with the powers and duties and privileges and under the limitations and conditions provided in this act and as set forth in this section, as follows:

(*a*) The words "farm-credit bank," preceded by the name of the town, post office, or locality where it is situated, shall appear in the name of each farm-credit bank, as, for example, "Waukesha Farm-Credit Bank," which shall be its corporate name under which it shall do business, and may sue and be sued and have a corporate seal.

(*b*) The corporate charter issued by the council shall be for 20 years, renewable for like periods at the discretion of the council, but shall not be a private vested right.

(*c*) The authorized capital stock of a farm-credit bank shall be unlimited as to amount and divided into shares of $10 each, and be purchasable at par on request to the bank by any person residing within 100 miles of the place where such bank is located and who owns a farm or is working a farm under a lease or who is engaged in the business of agriculture or is employed regularly in or about a farm, or who is a member of the immediate family of any such person, but no individual shall own more than 100 shares of the capital stock of any one of such banks, and at least $5,000 of its stock shall be subscribed and paid in cash before such bank shall begin business, and be outstanding to enable it to continue business. Each owner of farm-credit back stock shall be liable to a sum not exceeding the par value of his stock in addition to the amount invested in such stock for any loss accruing while he owns such stock or within 60 days thereafter resulting from the failure of such bank to pay its obligations or debts in full. A farm-credit bank shall at all times have at least 10 stockholders. Farm-credit bank stock shall not be sold, pledged, assigned, or transferred, except on the books of the bank and with the consent of the officer of the bank authorized by the directors to grant such consent, and such bank is hereby empowered to buy in at par its own stock and cancel the same, and to reissue the same, but shall not so reduce its outstanding stock below $5,000 Such bank may without other security make loans to any stockholder or to any authorized person or corporation on the indorsement of any stockholder to a total aggregating not more than 90 per cent of the par value of his stock in such bank, and each farm-credit bank is hereby given a first and paramount lien upon the stock of its stockholders to secure such bank for any debt, obligation, or liability, direct or indirect, of its stockholders to such bank, and it may buy in such stock at par and cancel or transfer the same on its own motion, and apply the proceeds to the payment or discharge of such debt, obligation, or liability, with or without notice any time after same is due, or it may sell such stock at public vendue to itself or any qualified person at such bank after 10 days' notice, posted in a public place in said bank, and so apply the proceeds of such sale. Each stockholder in person or by written proxy shall be entitled to cast one vote for each share of stock he owns at the annual or any special stockholders' meeting of such a bank.

(*d*) Each farm-credit bank shall be managed by a board of not less than 7 nor more than 15 directors, elected annually by the stockholders, and at least a majority of such directors shall be stockholders. The officers shall be president, vice president, and secretary, elected by the directors, who may employ a cashier, tellers, and other employees, with the powers and duties and compensation fixed by the directors and approved by the council. Any officer or employee of a farm-credit bank may be required by the directors or the council to give bonds or otherwise secure the bank against loss through personal dishonesty.

(*e*) Each farm-credit bank may adopt by-laws, rules, and regulations approved by the council, or every such bank may be required to conform to uniform by-laws, rules, or regulations prescribed by the council. All by-laws, rules, and regulations shal be subject to change or repeal by order or regulation of the council, and the council may make any order, rule, or regulation for the

organization and conduct of a farm-credit bank and the regulation of its business and affairs not inconsistent with law or the provisions of this act.

(*f*) A farm-credit bank shall receive deposits from and make loans to only its stockholders and individuals, firms, and corporations residing within 100 miles of such bank anod owning a farm or working a farm under a lease or engaged in the business of agriculture or regularly employed in or about a farm, and members of the immediate family of such persons. No loan shall be made by a farm-credit bank to any individual, firm, or corporation that shall exceed 10 per cent of the outstanding capital stock of such bank. A farm-credit bank may loan on unimcumbered improved farm real estate within 100 miles of such bank not exceeding 50 per cent of its cash value and for not more than one year, subject to extension not more than one year at a time when approved by the directors. A farm-credit bank may accept as security for loans warehouse receipts for cotton, corn, wheat, and other agricultural commodities and farm products, tools and machinery, and other personal property approved by the council, and under rules, regulations, and conditions prescribed by the council, and such other security as the council from time to time may authorize. The rate of interest or discount charged by any farm-credit bank shall not exceed 7 per cent per annum. No farm-credit bank shall discriminate between its customers, its borrowers, and depositors in the quality of service rendered or in the interest rates paid for deposits or charged on loans and discounts or in the charges made for other service.

(*g*) Each farm-credit bank shall always maintain a minimum legal cash reserve at least equal to 15 per cent of its total deposit liabilities, at least two-thirds of which shall be kept permanently on deposit with the council and the balance in its own vault or on deposit with national banking associations or other banks and trust companies qualified to enjoy the privileges of said council or subject to its regulation, but not with any other farm-credit bank except on the approval of the council. Each farm-credit bank shall be subject to the same examinations, reports, obligations, orders, rules, regulations, requirements, and supervision by the council as other banking associations, banks, and trust companies subject to regulation by the council, and while such farm-credit bank is in good standing with the council it shall enjoy, so far as practicable, the same privileges and protection from the council as such other banks, including the right to obtain currency and coin and loans on terms of absolute equality.

(*h*) At least one-tenth of the net profits realized each year by a farm-credit bank shall be carried to surplus until the surplus equals at least 20 per cent of the outstanding capital of such bank, and whenever such surplus is less than 20 per cent of such capital; and while such surplus is below 20 per cent of the capital the dividends paid on the capital stock of such bank shall not exceed 6 per cent per annum accumulated. No dividend or part of dividend shall be declared or paid out of surplus except out of that part of surplus exceeding 20 per cent of the total outstanding capital stock of such bank.

(*i*) A farm-credit bank may open and maintain and do business with any other national banking association, bank, or trust company subject to regulation by the council, or with any other farm-credit bank in good standing with the council and with the council and any of its branches. But a farm-credit bank shall not have on deposit with any banking association, bank, or trust company an amount exceeding a sum equal to 10 per cent of the outstanding unimpaired capital and surplus of such farm-credit bank or of such banking association bank, or trust company, but it may have any amount on deposit with the council or its branches; and the deposits of a farm-credit bank in any other banking association, bank, or trust company shall be preferred deposits and paid before other deposit.

(*j*) The laws of the United States pertaining to national banking associations and the punishment of offenses by said associations or their officers and employees or persons dealing with such associations are hereby extended to include farm-credit banks authorized and formed under this section and their officers and employees and persons dealing with such farm-credit banks.

(*k*) The council may authorize, regulate, and supervise "farm-credit associations" of such character and with such powers as the council may determine to facilitate the extension of credit and currency by farm-credit banks to members of such associations.

UNITED STATES MONETARY CONGRESS.

SEC. 33. A representative Federal public body to be known as "United States monetary congress" is hereby created. It shall consist of 72 members, one

elected by the electors of each State and 24 representing the Federal Union, appointed by the President with the advice and consent of the Senate. The term of office of the members shall be four years, beginning March 4, half of the elected members and half of the appointed members shall be elected in alternate two years, except that in 1914 the entire number shall be chosen, half for two years and half for four years, provided that of the 24 representing the Federal Union there shall be included all living former Presidents of the United States, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, and the Secretary of Labor as ex officio members. Members of the council shall be eligible for election by States or appointment by the President as members of the United States monetary congress. All vacancies shall be filled in the same manner. The members shall receive no stated salary, the position being honorary, but each member shall receive a sum equal to his railroad fare from his place of residence to Washington, D. C., and return and $25 per day to meet all other expenses while necessarily absent from his home to attend the annual meeting to be held in the city of Washington in the month of February each year and any special meeting. Members of the United States monetary congress shall be eligible for election or appointment as members of the United States monetary council and as appointees or employees of the council. On the order of the President the elected and appointed members of the United States monetary congress shall meet and organize by electing a president to preside and three vice presidents and such other officers as it may determine, and adopt rules for its own government and guidance; and thereafter such United States monetary congress exclusively, instead of the President and Senate of the United States, shall have the right and power of choosing all members of the United States monetary council, except the ex officio members thereof, and of suspending or for cause expelling the same, and the filling of vacancies. The United States monetary congress shall advise and supervise the work of the council, and by an affirmative vote of at least two-thirds of its members may veto or reverse any action of the council or require the council to take any action prescribed by the United States monetary congress by resolution, and by majority vote it may propose to the council any course of action, but same shall not become operative until approved by the council unless it was adopted by such two-thirds vote.

Sec. 34. Any existing laws of the United States in conflict with the provisions of this act are hereby modified to an extent, and only to such extent, that they will not conflict with the provisions of this act, and all existing acts or parts of acts in conflict with the provisions of this act are hereby so modified or repealed.

Resolutions of the Kentucky Bankers' Association on the Glass-Owen Bill, September 18, 1913.

The following resolutions were submitted by the committee on resolutions and unanimously adopted:

"*Resolved*, That we, the members of the Kentucky Bankers' Association, in regular State convention assembled, at Louisville, Ky., this 18th day of September, 1913, reaffirm our previously expressed desire for a more elastic currency and a better utilization of bank reserves; but we deplore and oppose the following provisions of the bill known as the Glass-Owen bill now pending in the American Congress, to wit:

"First. We condemn the provision of said bill that forces existing national banks to invest any portion of their capital stock in regional reserve banks, or compels them to make deposits therein.

"Second. Feeling that what the country needs is more and not less banking facilities, and that all banks, both State and National, should be on equal footing, we are opposed to the abridgment of any of the existing rights of national banks, and to the enactment of any law that tends to depreciate the value of United States Government bonds held by owners thereof.

"Third. Whatever note issue or emergency currency is permitted should be issued by the banks, without the guarantee of the Federal Government, except as it may act as a trustee for holding the assets which secure such currency, and the currency thus issued should be so safeguarded as to make it sound and safe, and it should be so taxed as to cause its automatic retirement when it has served its purpose.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 19

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, Chairman.

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.*
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

James V. [illegible], Clerk.

I

"Fourth. We are opposed to that section of the pending bill which requires banks to render the important and often unpleasant and expensive duty of collecting checks without charge.

"*Be it further resolved*, That we realize the difficulty confronting the President and Congress in their present effort to enact into law the will and wisdom of the American people on the subject of a bank that will serve alike the interests of all sections of our common country and bring about the result so long desired, to wit, a safeguard against financial panics, and we heartily indorse their efforts in that direction, and sincerely hope that they will lend an attentive ear to all interests and succeed in giving to the country a law that will prove a safeguard and benefit to all our people; and we believe that the present wholesome agitation will lead up to a proper solution of the difficult problem."

On motion of Capt. J. H. Leathers, Messrs. J. E. Buckingham, J. N. Kehoe, and J. M. Atherton were appointed a special committee to deliver, in person, a copy of the above resolutions to the chairman of the Banking and Currency Committee of the United States Senate and the chairman of the Banking and Currency Committee of the House of Representatives, at Washington, D. C.

A copy attest.

——— ———,
Secretary Kentucky Bankers' Association.

(Thereupon, at 5.40 o'clock p. m., the committee adjourned to meet to-morrow, Wednesday, October 1, 1913, at 2.30 o'clock p. m.)

WEDNESDAY, OCTOBER 1, 1913.

Committee on Banking and Currency,
United States Senate,
Washington, D. C.

The committee assembled at 2.45 o'clock p. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

STATEMENT OF CHARLES A. CONANT—Continued.

The Chairman. Mr. Conant, Senator Hitchcock has some questions he desires to ask you.

Senator Hitchcock. Mr. Conant, we were discussing yesterday whether there should be a limit upon the volume of paper currency, and as I recall it, you were not in favor of placing an arbitrary limit upon the issuance of paper credit?

Mr. Conant. No; I do not think any arbitrary limit is necessary, with the expanding business of this country. You grow up to the limit, and then you have to change it, as has happened in the case of the Bank of France. The real limits are factors which keep your currency steady all the time, such as the observation of the foreign exchanges. Those things should be the sources of limitation, not anything arbitrary or anything determined by any single individual.

Senator Hitchcock. Is there any proper volume of money circulation which should be established, including paper currency as well as gold?

Mr. Conant. You mean in the United States, or anywhere else?

Senator Hitchcock. Take two countries. Suppose one has a circulation of $34 per capita and another has a circulation of $50 per capita. Is one country better off than the other?

Mr. Conant. Not at all. It all depends upon the methods of carrying on transactions. The countries you speak of are France and

the United States, I think, although I am not sure that France has so large a circulation.

The CHAIRMAN. France has $47 per capita.

Mr. CONANT. Approximately, what Senator Hitchcock stated.

The CHAIRMAN. And Germany has $23.

Mr. CONANT. Yes. The reason for a large circulation in France—while it is in some degree an evidence of prosperity, the real reason is that they use currency so much and checks so little. On the Continent, as you are all doubtless aware, the check system is not used in anything like the degree it is in England or the United States, partly because of the fiscal charges, the stamp tax. And then the laws regarding the use of checks are much more complicated than ours.

Senator HITCHCOCK. You, as I recall it, stated that you thought sufficient limit upon the volume of currency would be established if a certain amount of reserve against the note issue were provided for?

Mr. CONANT. Yes; that is the principal determinant of the soundness and security of the currency.

Senator HITCHCOCK. But you would permit the Federal board to allow any volume of currency within that limit?

Mr. CONANT. Unless the Federal board was satisfied that the monetary situation was uncertain.

Senator HITCHCOCK. I mean you would allow them to fix it within that limit?

Mr. CONANT. You mean with no limit?

Senator HITCHCOCK. To fix the volume of currency within the limit made by the reserve?

Mr. CONANT. Not necessarily. The Federal board is bound to study the situation.

Senator HITCHCOCK. I understand that. Suppose the Federal board fixes the proper limit; would you allow the Federal board to fix the limit within the limit called for by the reserve?

Mr. CONANT. Yes.

Senator HITCHCOCK. That is, as long as the Federal banks were compelled to maintain a 50 per cent gold reserve against circulation?

Mr. CONANT. Yes; I should say so, generally speaking.

Senator HITCHCOCK. You would allow the Federal board to issue any quantity of currency as long as they could maintain that reserve?

Mr. CONANT. As long as they maintain that reserve I should say that would be safe.

Senator HITCHCOCK. You admit that while that is the standard adopted in Germany, the result has been that at times they have approached inflation, and that the inflation has been followed by a check which has caused a depression, and the depression has resulted in great commercial loss?

Mr. CONANT. I do not say that there has been currency inflation. On the contrary, I should say not. There has been credit inflation, and such a locking up of capital in fixed form is the chief precursor of trouble because of the reduced supply of capital available for current commercial or productive purposes. The trouble with Germany has been all the time the ambition of the Government and of German merchants and financiers to extend trade and to obtain commercial or diplomatic advantage all over the world, and they have strained their capital resources. But the currency factor has been a subordinate factor. I should not say off hand that the Imperial

Bank of Germany has ever encouraged or permitted the inflation of currency. In fact, the German law is so very strict that there is no room for very much inflation.

Senator HITCHCOCK. I just looked up yesterday, after you had been testifying, and I find that the per capita note issue of the Reichsbank was 16 marks in 1880, 20 in 1890, 20 in 1900, 21 in 1902, 21.07 in 1904, 22.07 in 1906, 23.08 in 1907, and that the per cent of cash reserve against those notes declined steadily from 65 per cent in 1880 to 45 per cent in 1907. Does that not denote an inflation of the currency?

Mr. CONANT. No; I should not say that, quite. In the first place, an expansion per capita has taken place in most progressive countries, partly, perhaps, due to the rise in prices, but more particularly to the increased number of people engaged in commercial business—in other words, the bringing of the whole community, rural as well as urban, into the circle of active financial and monetary transactions.

Senator HITCHCOCK. Let me stop you right there. In England there has been no such inflation?

Mr. CONANT. Because England had already reached the stage of saturation, if you please, and moreover, her system——

Senator HITCHCOCK (interposing). That is really the answer?

Mr. CONANT. No; because she has substituted the check system. Germany has not done that.

Senator HITCHCOCK. France has been going in the other direction; she has been increasing the per cent of her cash reserve against her notes, until it is up to 85 per cent, and she has had none of this depression following periods of inflation.

Mr. CONANT. France, of course, has been in the fortunate position of having adequate capital for her own industries. She has not been creating new industries as Germany has, and she has had great reserves to loan abroad.

Senator HITCHCOCK. Would Germany have inflated her currency as she has done, if she had not had the power to inflate her currency?

Mr. CONANT. I should say she would, probably, but not to exactly the same degree. I do not consider that the German currency can be regarded as seriously inflated on the figures you have given there. There is an element of criticism, however, in that she has allowed her metallic reserve to run down below 50 per cent.

Senator HITCHCOCK. From 65——

Mr. CONANT (interposing). Down to 40. Sixty-five was rather excessive. It would indicate that in that particular year forces were in a state of quiescence, and that conditions were slack, just as occurs after any panic.

Senator HITCHCOCK. You say that is excessive. It is excessive measured by France or by Great Britain; it is not excessive as measured by the United States?

Mr. CONANT. I would like to complete an answer to your previous question.

Senator HITCHCOCK. I beg your pardon.

Mr. CONANT. Of course, if a country can afford to set aside 65 or 100 per cent of gold against its currency it may be a good investment; but even so far as the 50 per cent is concerned, it is a dead investment, unless it is necessary to secure it. A country should make a considerable sacrifice of income to secure a sound credit cur-

rency. If 75 per cent reserve were effective it would pay the country to make that investment, even though it involved a large loss of income.

Nations like Germany, with less accumulated riches than France, can not afford to make that investment. They can not afford an investment of 65 per cent, permanently, in their reserves. They need to invest capital in great productive and commercial enterprises. What has occurred in Germany has been that the people of Germany, stimulated by the Government as well as by the commercial bodies, have tried to do more business than their capital justified. But the volume of currency constitutes a very small factor in the matter. Theoretically, if the currency had been very much more restricted, it might have put a little more of a curb upon speculation, but not much, because speculation does not have to be made through currency—it is made through banking transactions and credit. But the trouble in Germany, as it was in this country prior to the panic of 1907, has been the conversion of the productive capital of the country, the annual product, into fixed forms, to such an extent that the liquid capital has been reduced to an almost inadequate point.

Now, the German banking system is designed, as far as practicable, to facilitate transactions, to turn corners, because in Germany, you know, there are the quarterly settlements, which are occasions when there is a great demand for currency. But that demand closes in a week or 10 days, and they can afford a certain currency inflation for that one week. So that the last amendment to the law in 1911 permitted the Imperial Bank to issue 200,000,000 marks (about $50,000,000) in the week ending each quarter, which is considerably more than they can issue in ordinary times. This does not relate to the amount that can be issued on deposits of gold. You can issue any amount, if you deposit gold, mark for mark. Above that you must pay a 5 per cent tax.

I do not think the monetary experience of Germany can be used to illustrate the evils of currency inflation. It might be used to illustrate the evils of credit inflation. The German system is abundantly conservative, even though the metallic reserve is only 40 per cent.

The real criticism might be made that the German law makes no requirement for reserves against deposits, and that the great joint stock banks have gone on locking up capital, engaging in great enterprises, and holding no reserves or very small cash reserves, relying upon the Imperial Bank to supply them with currency when they needed it.

The German system is considered a very conservative system. In fact, when it was adopted in 1875 the charter of the Bank of England was studied, and an effort was made to conform in a measure to the theory of the Bank of England, but to get rid of a situation such as occurred in England when, in times of crisis, when no more currency could be issued except upon gold, the system was modified by adding the provision that currency could be issued upon a 5 per cent tax. Gen. Francis A. Walker, who was a strong devotee of the Bank of England view, said that the tax might better have been 10 per cent. But experience has shown that the 10 per cent tax would have been unnecessarily restrictive, and I do not believe it would have had the effect you referred to of checking credit inflation. It

might to a small extent, but the credit inflation has not been influenced primarily by increase of currency.

Senator HITCHCOCK. This occurs to me, and I would like to have your opinion on it. In Germany the Reichsbank is permitted to discount the notes of the great banks which they have taken in the course of business. There are not many of those banks. In this country we propose to establish either a central bank or 12 regional banks, which will be called upon to discount the notes possibly of 20,000 banks. Will there not be much more danger of credit inflation in this country under those circumstances than there would be in one of those countries where only a few great banks deal with the central bank?

Mr. CONANT. There probably would be to a limited extent; but it would be the duty of the Federal reserve bank to control that.

There is another point akin to this relating to acceptances. This, I believe, authorizes banks to make acceptances, a very desirable and proper thing, and, I think, perhaps, a thing which should be restricted to the larger banks of at least $100,000 capital, and perhaps larger than that, because the promiscuous introduction of acceptances might involve considerable inflation.

Senator HITCHCOCK. Do you believe a bank of deposit ought to give acceptances in any case?

Mr. CONANT. Oh, yes; I think it is perfectly safe business.

Senator HITCHCOCK. That is not the custom in Europe. There the general financial houses are the ones who give acceptances.

Mr. CONANT. I think the deposit banks of Berlin and Paris do so.

Senator HITCHCOCK. I have been told that up to a very small percentage they will buy and sell them, but they will not loan on them.

Mr. CONANT. There is force in that exception. I do not imagine that in this country acceptances would be introduced with sufficient rapidity to make the danger a serious one at the beginning. I think probably the Federal reserve board would frame some regulations restricting them, and it might be well to incorporate in the bill a provision authorizing them to do so.

Senator HITCHCOCK. You are in favor of giving the Federal reserve board tremendous power?

Mr. CONANT. If it is properly constituted.

Senator HITCHCOCK. We do not know anything about that. It may be composed of seven very good men or otherwise. We are endowing them with powers. Do you believe in giving them unlimited discretionary powers?

Mr. CONANT. In certain directions, but I believe that in others their power should be defined by law. I believe the provisions of the bill are a little loose as to taxation. I think that should be more clearly defined by law. That the Federal reserve board shall determine the conditions under which acceptances shall be granted is, however, a limitation of power, allowing them to say to the banks, "You can not grant acceptances, except under certain conditions."

Senator HITCHCOCK. Would that not probably be turning over to the Federal board power to legislate in regard to a banking and currency system?

Mr. CONANT. I should not say so.

Senator HITCHCOCK. As it is now, a bank can not lend its credit?

Mr. CONANT. No.

Senator HITCHCOCK. To give an acceptance means the bank goes into the business of lending its credit, regardless of what its resources may be?

Mr. CONANT. It should be limited, and with the big exchange houses which exist in New York it might be possible to forbid acceptances to national banks, except within proper limits.

Senator HITCHCOCK. Do you think the acceptances that a bank has determines the amount of interest?

Mr. CONANT. No; it depends on circumstances. The bank expects a return and it looks into the character of the assets. A man who indorses another man's notes usually does it from no commercial motive, as a rule.

Senator HITCHCOCK. The bank does it because of the profits it makes in lending its credit?

Mr. CONANT. But they are bound to look into the resources of the parties. Acceptances are based upon the active movement of commodities. Unless they are fraudulent they are more certain to represent commercial transactions than loans on commercial paper. Acceptances usually represent a transaction—a shipment.

Senator HITCHCOCK. If one man goes to another and asks him to indorse his notes, the other man, if he is a wise man, will say, "No: I will lend you the money." In other words, he is unwilling to have his paper out where it might come in upon him possibly in an unexpected way, and prove an embarrassment to him. Is it not a little the same way with a bank? If a bank has the money to lend, it will lend it; but not give him an extension, which may expire in 60 or 90 days, and may embarrass them. Is that not a more risky class of business?

Mr. CONANT. No; it is not more risky among those who understand it. The losses are very rare.

Senator HITCHCOCK. I mean in this way: Suppose a bank of deposit gives its acceptance for $100,000, which comes due in 90 days. In the meantime the depositors take the money out of the bank, withdraw their demand deposits. Now, a new condition has arisen. The bank's acceptance is due, but the depositors have withdrawn their money, so that it is an embarrassment for the bank to take up that bill.

Mr. CONANT. The prudent bank president is supposed to be on guard and to look out for matters of that kind.

Senator HITCHCOCK. Is it not a general rule in Europe that banks of deposit do not give acceptances, but that business is confined to financial houses?

Mr. CONANT. I think, to a certain extent, that is so. I am not prepared to say that is an absolute rule.

Senator HITCHCOCK. I will say personally I am against allowing banks of deposit to give acceptances, and I think this bill does not allow banks generally to give acceptances, but only to give acceptances in the case of foreign trade, which, I think, is a discrimination against domestic trade.

Mr. CONANT. We do not use acceptances in domestic trade at present. They will have to be domesticated in this country before any dangers begin to develop.

Senator BRISTOW. Mr. Conant, I wanted you to outline about the kind of bank you would recommend if we had a Federal bank, governed by a board similar to the one that is provided in this bill, and the stock owned either by banks or by individuals. About what kind of a bank would you suggest, if one like that should be thought wise to organize?

Mr. CONANT. Well, I have not sat down to plot out such a measure, and it would be a little foolhardy to undertake to go into much detail. I should say you have already defined it in a way. If it is under Government control and privately owned, you would avoid any danger of private control. That is practically the situation in the Bank of France, and the Bank of Germany, and the Bank of Belgium, and other institutions in Europe. The Government appoints the leading officers, and private individuals hold the stock and are represented on the board.

Now, of course, the Bank of France is the typical and strongest bank for the conditions which exist in France. We can not use that particular type of charter without modification. The Bank of France is a bank for individuals as well as for banks, although its deposit business from private individuals is comparatively small in proportion to the note issue. To-day in the Bank of France about 60 per cent—probably 70 per cent—of the outstanding notes are covered by gold, and there is also a considerable amount of silver. As suggested, I think, by Senator Hitchcock yesterday, the metallic reserves in both metals is approximately 75 per cent, so that the remainder of 25 per cent of the note issue which is not covered by metal can be protected anyway. We do not need to go quite so far; in fact, they in France would not do it except that they are so rich and can afford to invest a large part of the national capital in a big surplus reserve. If France needed the money for other purposes, she could get along almost as well on a metallic reserve of 50 per cent. Of course, the Bank of France has branches all over the country, and the chambers whenever they have renewed the charter have made it a condition that it should extend the number of branches. I believe there are now over 100 branches, properly so called, and in addition to that there are smaller offices bearing other names. I can give you the exact figures as they stood a few years ago. In 1907 the number of branches of the Bank of France of all types was 467. That includes not only what are called branches proper, but auxiliary offices, some of which are manned very slightly, yet are able to accept deposits and make loans.

There is one feature in particular of the Bank of France which is very popular there, and also in the Bank of Germany and the Bank of Belgium, and that is the rediscount of small paper. A great many thousands of bills—I think I have the figures on that—are for amounts as low as 10 francs. A little retail tradesman making a purchase of a wholesaler will give bill for 30, 60, or 90 days for sometimes as low as $2 and sometimes for as low as 20 francs, or $4. The Bank of France does not directly discount for those people, but when the discounts are granted by the joint stock banks the joint stock banks turn them over to the Bank of France for collection, and the Bank of France has an equipment of people to make the collections. I forget the French name of the official who does that work,

something equivalent to a clerk or messenger. He makes ds every day. Instead of making the small people come to x, these collectors make the round of the shops every day and the notes which have matured and which have been redis- d. I do not suppose it would be necessary or desirable to intro- hat system here, because our small tradesmen have more money y, and they would scorn getting a discount for $2. As I say, business could not be done directly in any case through such an ution, but it could be done indirectly, if it was thought worth e to establish a system of that sort.

Senator BRISTOW. You could leave that to the banks as they are y organized, but we do not have such conditions as that here. at would not be necessary in our country, with our banking cilities.

Mr. CONANT. No; our people would not need to go into such small ansactions as that.

I will say this about the Bank of France, which may not be perti- nent to this discussion—and it is true also of several other European banks—that whenever there was a revision of the charter in recent years, the conditions imposed have been more onerous. In all the European banks of issue to-day, outside of England—and we always leave England out, because their system is not governmental in any way—in the continental banks there have been renewals of the char- ters from time to time. In the case of France those renewals take place only once in a considerable term of years. In the case of Germany there is a rearrangement of the terms every 10 years, with the result that every 10 years new conditions have been imposed.

Senator WEEKS. That is the case in Canada, too?

Mr. CONANT. Yes, sir; under the Canadian law there is a revision every 10 years. In every such revision in Europe the Government has become a larger partner in the business. They have not inter- fered with the management of the bank as a private institution run for the benefit of the stockholders, but they have levied what you might call a special income tax. They have said, "After you have paid your shareholders so much, if you have a surplus, it shall be divided between the shareholders and the Government;" and the ratio of that division is constantly increasing in favor of the Gov- ernment.

Senator BRISTOW. That is intended, of course, as a source of reve- nue for the Government?

Mr. CONANT. Partly that and partly to meet this theory that the right of issue ought to be a source of some profit to the Government and not exclusively a private monopoly. That is partly owing to th disposition to curb monopoly. Of course it is highly desirable tha note issues should be a monopoly, or at least that notes should b issued under a uniform system, and that you should not turn eve body loose to issue his own notes.

Senator BRISTOW. The Bank of France issues these notes. ks also issue them. Is there no limitation on the earn ?

that in a moment. There is no li division between the s

Senator BRISTOW. That would be a detail for us to consider?

Mr. CONANT. Yes.

Senator BRISTOW. This Federal reserve bank would be the depositary for the Government funds?

Mr. CONANT. Yes. I think in every European country, including England, there are practically no subtreasuries. There are post offices and places where the Government takes in money, but the money is deposited with the bank of issue.

Senator BRISTOW. Yes. That is one reform that has been recommended by students of finance for years in this country, is it not; that the moneys instead of being locked up in these subtreasuries and in the Treasury of the United States should not be withdrawn from circulation, but redeposited?

Mr. CONANT. Yes.

Senator BRISTOW. Then you would make this Federal bank a Federal reserve bank and have it a depositary for the reserves of the country banks.

Mr. CONANT. I suppose under our system that would be necessary. Of course in France there is no provision of that sort; it is purely optional. In the first place, banking, outside the Bank of France, is now very much concentrated.

The big institutions do practically the whole business of France. The time was when the local notary, or a family in a small locality did the banking business there. But the organization of the Crédit Lyonnais, which assumed its present form in 1881, the Societé Générale and the Comptoir D'Escompte—those are the three principal ones, but there are two or three others almost equally important—since the organization of these banks they have established branches all over France and have so reduced the rate for commercial loans that they have put the private bankers largely out of the commercial business. There are lots of houses engaged in floating loans, but that is rather an independent business.

Senator BRISTOW. You do not think that is desirable, the concentration or mobilization of these by a few large concerns?

Mr. CONANT. In France and England it has been carried pretty far. While it has resulted in a lower discount rate on discount paper, it has deprived the small man of the credit which he might derive from his character. Inasmuch as the managers of the branches in effect were clerks, employees of the central bank, and not always residents of the locality, and have little discretion, they have to make their loans according to established rules, there is not the flexibility in extending credit to the worthy local man that there was when a private family practically did the banking and knew the man.

Speaking of the commercial business of the country, probably the concentration has been beneficial, because it has established a comparatively uniform rate of discount, enabling the surplus of funds which are accumulated at the capital in Paris to flow to localities where they are needed instead of making every locality its own provider of funds as well as its own disburser of them.

Senator BRISTOW. If you had a Federal reserve bank, with the reserves on deposit there, would that not meet that demand in rediscounting for these various country banks? Would not that money naturally flow where it was needed most?

Mr. CONANT. You mean if we retained something like the present banking system, leaving out the note issue?

Senator BRISTOW. I would leave the banking system as it is—that is, the State banks and national banks just as they are now.

Mr. CONANT. What is your question?

Senator BRISTOW. You suggested that the concentration of the banking business of France into a few great banks had resulted in the flowing of money where it was most needed, where the best rates could be obtained, and that, as a result of that, it had been commercially beneficial. Would not this Federal reserve bank, if it rediscounted for any of the banks of the country and was a reserve bank, could it not perform the functions to a certain extent that these concentrated banks have? Would not this reserve that is here in mass, mobilized, be used; would it not flow to the place where it was most needed: would that not be the tendency?

Mr. CONANT. Yes; in so far as that bank handled the commercial business of the country. Of course, I should say, that a reserve bank even if as strong as the Bank of France, would not undertake to do the whole business of the country. In New York the existing banks would continue to do a large part of the business.

Senator BRISTOW. Just as they do now?

Mr. CONANT. Yes; only they could appeal to these Federal banks when they needed currency.

Senator BRISTOW. You would not recommend a banking system that would extend the mobilization of the banking business anything like it is in France?

Mr. CONANT. No; I think that would be impracticable.

Senator BRISTOW. Do you not think it would be undesirable?

Mr. CONANT. Well, it would be undesirable to the extent to which it has been carried in France. It might be advisable to allow them to contribute to the very things you suggest, to permit some of the national banks to have branches in some localities, under certain conditions. But it would hardly be practicable, even if the laws permitted it, for a few New York banks to have branches, say in Arkansas and Texas—I mean in every community in Arkansas and Texas. It might be practicable to allow them to have branches in Fort Smith and Dallas, but if they undertook to have branches in every community it would be a very top-heavy proposition. I do think there would be some advantage in letting banks with a certain capital have branches in other reserve cities, and, perhaps, within the limits of their own States.

Senator BRISTOW. Do you think it would be advisable to have a big, powerful institution in competition with the local concerns? I think commercially and economically we are suffering from such concentration now, not in banks but in business, and I am afraid that our independent system of banking, which I think is very desirable, might be broken up to some extent.

Mr. CONANT. I do not understand that there is anything in the bill providing for the extension of branches in the cities of the United States. I say, I should not consider the question of establishing branches without restriction on the part of the big city banks as a practical question at the present time, because there is too much prejudice against it.

Senator BRISTOW. Now, to get back to our starting point, as I understand, you would suggest that this Federal bank be a Government depositary, that it be a bank of issue?

Mr. CONANT. Yes, and a bank of rediscount.

Senator BRISTOW. And a bank of rediscount and that it be a reserve bank, and that the reserves which are required by the Government be kept in this bank?

Mr. CONANT. You mean the reserves required by law from other banks? Yes; I am inclined to think that would be necessary under our system. There is no such law in any European country that I recall requiring banks to keep reserves. They have to keep some money there for certain purposes, but in this country, with the existing banks in operation. I think it would be desirable to require them to keep a certain percentage of reserve, ultimately in the central banks, because that would tend to concentrate the gold reserves there.

The French and other laws do not require reserves from the joint stock and local banks. We require those reserves, and I think we should require them, because we have so many banks that we can not keep them under the scrutiny of competent financiers all the time, and if we gave a bank freedom the result would be that the bankers who were the most risky and who kept small reserves would compete with the more conservative banks, and we should ultimately get into a very dangerous situation. That being the case, I think with our 7,000 national banks, and 18,000 banks subject to State laws, and trust companies we should not abandon the idea of having a certain required reserve, and if we do have a required reserve, which compels the banks to lock up currency or credit, it would be desirable that that reserve should be kept with the central bank. For that reason I think it would be advisable to require the local banks of this country to keep a certain percentage of their reserves with the central bank.

Senator BRISTOW. Do you think it would be more desirable to have the stock of this Federal bank subscribed by the banks or by citizens not bankers?

Mr. CONANT. I have not any mature opinion in regard to that. I do not see why it is not equally satisfactory either way. I see no reason why private citizens should not be shareholders in the bank also. If you have bank subscriptions it knits up the interests of the banks with the central bank.

Senator BRISTOW. Would it not be better to have it independent of the bank and make it useful to the banks in their service of the community who have their relations with this bank—that is, make it independent?

Mr. CONANT. Of course you have this factor to consider, that creating a new institution, as we would be here, they might have no business at all if you did not knit it up with the other banks. if you did not make them partners, and did not require reserves to be deposited.

Senator BRISTOW. You would have the reserves——

Mr. CONANT (interposing). And Government funds, of course.

Senator BRISTOW. Government funds and your capital?

Mr. CONANT. Yes; and the privilege of note issue.

Senator BRISTOW. The privilege of note issue.

Mr. CONANT. You can only utilize the privilege of note issue when you have some assets against it, and make loans and issue your notes.

Senator BRISTOW. Why not let the note issue rest with the bank, and let the bank obtain notes on its assets, similar to the provisions as to the regional bank?

Mr. CONANT. But I am saying they would have no assets if nobody did business with them; if nobody went to them for loans there would be no occasion for the issue of notes.

Senator BRISTOW. But if the banks wanted currency on their assets?

Mr. CONANT. Then they would ask for rediscount.

Senator BRISTOW. They could only get it from this bank?

Mr. CONANT. The notes would get in circulation in that way.

Senator BRISTOW. What other functions would you give to this bank?

Mr. CONANT. I would give it pretty wide functions in regard to foreign exchange, buying and selling bills, and even initiating loans abroad, which could easily be done by a strong institution. In 1907 some of our New York bankers went to the Bank of France and asked for a loan, and they said. "We will give it to you if it is guaranteed by the Government of the United States, or if you had a central bank; but as you have no such institution, and as the Secretary of the Treasury says he has no authority to give the guarantee of the United States, we can not make the loan."

Senator BRISTOW. What capital would you suggest?

Mr. CONANT. It should not be less than $50,000,000, and perhaps $100,000,000.

Senator BRISTOW. Would you put a limit on the dividends on the capital stock?

Mr. CONANT. Probably some such limit as is imposed in Europe.

Senator BRISTOW. Five or six per cent?

Mr. CONANT. It would not be an absolute limit. I should say after they had reached 5 or 6 per cent they should then divide with the Government.

Senator BRISTOW. As I understand it, there are three things which it is desired to accomplish by this legislation. One of the things is the mobilization of the reserves. Another is a certain place for rediscount, and the flexibility of the currency.

Mr. CONANT. Elasticity.

Senator BRISTOW. Elasticity of the currency. Could not those three things be provided for more easily and by simpler processes through such an organization than through these 12 regional banks?

Mr. CONANT. Oh, yes; very decidedly. I should want to study the question of how a new bank would get its business; whether it was not advisable for the larger of the national banks to be member banks and to have some direct relations with the central bank, and if it were clear that the central bank would get a sufficient volume of business through rediscounts to issue its notes, then I think the mechanism would be much simpler and more effective than through the 12 regional banks.

Senator BRISTOW. Now, the objection to a central bank in the United States, as I understand it, at least the objection that I have had, and I think it is a popular objection, is the fear that it places in the hands of the financial interests, and they might and I think

could obtain control of that bank and great power over the credit of the country and the currency of the country, and that is dangerous. I think it would be used selfishly, myself, although there is a difference of opinion about it. A Federal bank controlled by a Federal board could not do this, could it?

Mr. CONANT. No; I think not. You mean by a Federal bank such a one as you have been describing, the stockholders being private citizens and being represented through a committee. That is practically the situation in all Continental Europe. And the officials appointed by the Government are usually men who have grown up in the public service, not picked out because they have rendered some political service, but men who have grown up in the service in the customs or Treasury, and who are familiar, more or less, with banking, and there almost never arises any friction or difficulty between those officers appointed by the Government and the committees representing the shareholders. As I stated yesterday, in the case of the Bank of Germany, the committee representaing the shareholders is usually allowed the initiative in determining the rate of discount; that is, when changes should be made in the rate, and as to what paper should be discounted, and as to various other points. The power of the Government officials is supreme, but they very rarely, if ever, exercise it.

It would be necessary in this country that the bank should have some branches; not necessarily a large number, but enough to do its exchange business in the principal cities of the country.

Senator BRISTOW. Those branches would be for the purpose of carrying the banking facilities nearer to the local banking institutions and they would be expected to use them?

Mr. CONANT. Yes; that would be their purpose. There would be very little competition between them and the other banks except in times of tight money. The Bank of France and several other continental banks let the reins fall out of their hands when money is plentiful.

Senator BRISTOW. My idea is that this Federal bank should be used to strengthen the banks of the country instead of competing with them. It should be supplemental to what we now have, and be used as an agency to help them in taking care of the business of the country, as they do now in times of emergency.

Mr. CONANT. That, I think, is a proper view of it. It is the policy of most European banks of issue.

Senator BRISTOW. Could not that be done without disturbing the present currency which we now have, and let any revolution or radical change in our currency be deferred until this new bank and its relations to the banking institutions of the country have become established? The elasticity we give to the supplemental currency would be through this bank and the national-bank notes could stay as they are now.

Mr. CONANT. That would be practicable, I suppose, except that if you are going to superimpose a new currency upon the old, and the old is practically to remain in circulation, the new currency might represent too small a ratio to the total to be effective in influencing the market.

Senator BRISTOW. You think it might be desirable to retire a small part of the national banking currency and substitute this for it?

Mr. CONANT. That would be a safer step, if you follow such a plan as you outlined, because otherwise—suppose that your new central institution had only put out $50,000,000 of notes and it had only $25,000,000 of gold against it. If a gold drain should set in, drawing out, say, $100,000,000 in one year, this bank would not be able to cope with it. Its magnitude would not be adequate, so it would be rather desirable to substitute its notes for the old notes. That has been done in most of the countries in Europe where a central bank has been adopted.

You know, the history of banking in Europe has been the evolution toward a central bank. England and France were first, and then came along Belgium and the Netherlands, about the middle of the last century, and then Russia. Finally, within a very recent time, Portugal, Spain, Italy, Switzerland, and Sweden have joined the procession of central-bank countries. The Balkan States adopted the central bank soon after their liberation from Turkey in the war of 1877. The two last countries were Switzerland and Sweden, Sweden adopting the central bank in 1904. Switzerland did not adopt the central-bank system until the law of 1905, and the system went into operation in the summer of 1907 on the very eve of our panic. And yet, even with that limited time of preparation, the Swiss central bank was able to cope with that situation and maintain the credit and prestige of the circulation. But in both those countries—Sweden and Switzerland—arrangements were made for the gradual retirement of the circulation of the local banks within a short term of years, and inducements were given to retire the circulation within less than that time. As a matter of fact the circulation was surrendered very rapidly in both countries.

I think some such step would be necessary to give your central bank here any effective power. The limitation of time was short in both those countries—about five years, I think, in both cases.

Senator BRISTOW. Such a plan as we have just been discussing could be put in force without disturbing the present banking conditions? That is, the banks could go ahead as they are now and avail themeslves of this new opportunity, and it would not incite any friction or contentions of any kind or tear up any existing business methods, would it?

Mr. CONANT. That is rather a broad statement. I do not know that I would want to say it would not invite any friction. You mean it would not disturb existing banking conditions?

Senator BRISTOW. Yes.

Mr. CONANT. I should think not. Of course, in the matter of substituting the new notes for the old——

Senator BRISTOW (interposing). That is a question of currency more than a question of banking.

Mr. CONANT. Of course, you are asking me all these questions without my having an opportunity to sit down and think out any such plan, and I am only replying offhand. I am not pretending to present a perfect plan.

Senator BRISTOW. I am going to ask you, if it is agreeable to the chairman, to submit to the committee an outline of your suggestions

as to such a bank—your recommendations as to how it ought to be organized and the functions and what its relations ought to be—as briefly and concretely as you can. Of course, it will take you some time to figure it out, but for my information, Mr. Chairman, I should like very much to have Mr. Conant's views on that.

Mr. Conant. I will do the best I can. Of course, you say an outline; that is, perhaps, easier than a charter, but I think it would require some study.

Senator Bristow. I want to say to you that I have had in mind since these hearings began—since I was placed on this committee, so far as that is concerned—some arrangement whereby each bank could get the accommodations that it wanted independently of its right, without being compelled to carry any large amount of stock or anything of that kind, or without being put under any obligations to any great private banking concern, so it would feel itself bound in interest to that concern. I wanted to preserve and enlarge the independence of the present banking system, and I felt that the comptroller ought to be vested with some power or authority whereby an individual bank could go to him and get currency upon its security which it presented, for the purpose of circulation.

But that has not been concurred in by many, I am free to say; it has been met with the statement that it is not practicable because the Government would have to have an intimate knowledge of the reliability of the 24,000 or 25,000 banks, and that would not be practicable. Then it was suggested by some that agents of the Government be located in reserve cities, and that those agents could pass upon the reliability of the banks, etc. Now, that has been objected to.

Now, when Senator O'Gorman suggested this plan to you yesterday, it led me to wonder if this Federal bank could not be used to perform the functions that I felt the Treasury Department ought to perform, and do it much more efficiently, and do other things, as you suggested yesterday, that it would be necessary for the Government to do.

Mr. Conant. Yes; undoubtedly a privately owned bank, which was in fact a bank, could do all these things much more economically, efficiently, and intelligently than any bureau of the Government, because the motives governing its directors would be different. At the same time you can have, as they have all over Europe, some of these officers appointed by the Government. You can have the comptroller sit on the board, if you like, as is proposed in this bill.

Senator Bristow. I am exceedingly anxious that there should not be any concentration of power or control in a private board to be used for the domination of our credit system—our finance system.

Mr. Conant. You mean, under an officer, and not under governmental control other than inspection? I do not suppose that it is practicable or desirable to have a bank so absolutely independent of governmental control as that. I do not think it is contemplated in any measure now pending.

Senator McLean. Mr. Conant, I have here a letter from the president of the Merchants' National Bank, of New Haven, which em-

braces a suggestion with regard to the character of the paper which may be rediscounted by the reserve bank. Let me read it:

THE MERCHANTS' NATIONAL BANK,
New Haven, Conn., September 30, 1913.

HON. GEORGE P. MCLEAN,
United States Senate, Washington, D. C.

DEAR SIR: In reading over the reports of the Senate Banking Committee on currency reform I notice that one feature in connection with the acceptance of commercial paper for rediscount has been overlooked, namely, that the volume of commercial paper of to-day based on the sale of commodities is gradually growing less through the fact that the average business man prefers an open account on his books rather than to tie it up in a note for two or three months' time and thereby preventing free action should by any chance the maker become involved in financial difficulties.

I think that the records of business concerns to-day will show that the settlement of accounts by note has very materially decreased in late years, and that the successful business man to-day, requiring accommodation, prefers to put his own note in the bank, which I understand under the proposed law would not be available by the rediscounting provision except to a small percentage, and in addition the requirement of the bill of accepting commercial paper based on the actual transfer of commodities will require an endless detail through the fact that even notes based upon the sale of commodities are not, as a rule, paid in full at maturity, but more often are renewed with small payments. This you will see would necessitate the payment and withdrawing by the discounting bank from the reserve bank of such notes and the substitution of others therefor; so that, as I look at it, it may be quite possible that should one of the reserve banks be located in New York, the country banks in that district would be obliged to employ their New York correspondents to take care of this business for them, keeping with their New York correspondents all such paper as they might have, and who would make the exchange.

These points may not amount to much, but as they occurred to me, I thought it would do no harm to call them to your attention. In my mind there can be no better paper than that made by our leading business men, and so-called "accommodation paper," which is issued for the use and requirements of their commercial business, and which as a matter of fact in our experience are paid in shorter time than the average note given in the settlement of merchandise purchases.

Very truly, yours, H. V. WHIPPLE, *President.*

Senator NELSON. Notes of that kind should be available under this bill.

Senator MCLEAN. But to a limited amount, as I understand it.

Senator NELSON. There should be no more limitation upon them than upon the other paper.

Senator MCLEAN. As he understood it, I think it referred to page 25 of the bill:

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per cent of the unimpaired capital and surplus of said bank.

Senator NELSON. That is of any one concern.

Senator MCLEAN. Yes.

Senator NELSON. And that is a limitation in the national banking act to-day, I believe.

The CHAIRMAN. It is; yes.

Senator MCLEAN. Evidently he did not so understand the matter. He understood, from page 25 of the bill, they were limiting that form of note to 10 per cent of the capital.

Senator NELSON. That means that one firm can not loan more.

Senator MCLEAN. Yes.

Senator NELSON. On that kind of paper he refers to. Is not that your understanding, Mr. Chairman?

The CHAIRMAN. Limited to 10 per cent of the capital of the member bank.

Senator NELSON. I mean that quality of paper he describes could not be discounted under this bill?

The CHAIRMAN. No; I do not think it would be.

Senator MCLEAN. Oh, yes; a note that a merchant gave——

Senator NELSON. I do not think it would be unless it was against certain particular merchandise.

Senator MCLEAN. That is evidently his understanding of it, and it seemed to me so from the reading of the bill on pages 24 and 25.

The CHAIRMAN. In our country we confuse the two elements of fixed investment and commercial paper as understood in Europe. A bank in this country gives a line of credit to a merchant, and that line of credit which is extended to him is in reality a line of credit not only against actual merchandise in transit, but against his established business and against his credit as an entirety, which consists of a localized investment and a floating capital in process of consumption which passes through his store and is drawn out by the people. So it is not separately treated in this country as it is in Europe.

As I understand it, in Europe an acceptance is against a piece of merchandise which is shipped to the merchant by the manufacturer say for disposal through his store, and the man who sells it to him will get the merchant's acceptance of a draft in payment of those goods, which is timed as against the period when he will probably dispose of the goods and be able to meet the acceptance which he gave.

Senator NELSON. We have not that kind of paper in this country.

The CHAIRMAN. No; we do not have a great deal of that particular kind of paper. The paper which we do emit includes transactions connected with the actual investment of the merchant in his storehouse and in his appliances and merchandise, and the generally included amount is taken as the basis of credit.

Senator NELSON. Here is the way it operates in practice: The merchant at an interior point goes to New York and buys a large bill of goods from a wholesale house or a jobber. He takes those goods home and he gets a line of credit at his bank, borrows money from his local bank and gives his note for it, and then he sends on his checks. He checks upon that account, and sends the checks from time to time in payment of his bill of goods.

The CHAIRMAN. And that particular transaction would come within the rule, but the general line of credit which you speak of confuses the two things; it would be a mixed transaction.

Senator MCLEAN. I should like to have Mr. Conant's view of the propriety of making this accommodation paper eligible for rediscount.

Mr. CONANT. I do not think there is any harm in making it eligible, because I think the Federal reserve board in laying down its rules, and the actual discounting officials of the banks, would decide whether it was a safe risk or not. A great many of these questions can very well be left to the discretion of the officers of the Federal reserve banks.

Senator McLEAN. There should be no restriction against it?

Mr. CONANT. I should think not, if it is really a commercial transaction. There should be every effort to restrict what the chairman alludes to—the lending of current deposits or notes upon fixed investments.

The CHAIRMAN. There are lines of credit given against a particular volume of merchandise which is going through these processes and that kind of paper would be distinctly commercial paper; but the bill itself provides that the Federal reserve board shall differentiate that so as to make it perfectly clear what paper would be available.

Mr. CONANT. I should say they would adopt safe rules.

Senator McLEAN. Senator Bristow asked you some questions with regard to the central bank as a substitute for the plan proposed in this bill. We have heard a great deal about the panic of 1907. The cash of the country was concentrated in New York where it could not be obtained by the country banks, and there is a popular feeling—as has been expressed by Senator Bristow—against any plan that will not prevent that as far as it may be possible.

Mr. CONANT. The answer to that is that you dower any central institution, or any chain of central institutions, with the power to meet the demand for currency by issuing their own notes. That is the key to the situation.

Senator McLEAN. So the central-bank plan would be in a position to restrain and restrict the concentration of money in New York as well as any plan that could be devised, would it not?

Mr. CONANT. I would not say it would restrict its concentration, but it would place it at the command of its owners at any time.

Senator McLEAN. It would be more likely to go where it was needed?

Mr. CONANT. Yes.

Senator McLEAN. Supervision over it would be as complete and effective as would be possible under any plan?

Mr. CONANT. Yes; and the resources are, in a sense, infinite. That is, if you require a certain gold reserve, even assuming that that reserve is rigid——

Senator McLEAN (interposing). So if there is any danger of great combinations of capital trying to control and dominate credit, this bank would be in a position to anticipate that sort of thing and prevent it as far as any plan that has been devised?

Mr. CONANT. Yes; so far as it affects commercial credit. But I think the complaints that people make with respect to that are due to misconception. The credit that people would like to get a share in is the credit for permanent improvements. That situation would not be essentially modified, except in so far as the central bank was a safeguard against crises.

Senator McLEAN. Would not the situation be better than it would be under the system of 12 banks proposed in the pending bill—with one central bank?

Mr. CONANT. It would be in a much better position to protect commercial credit——

Senator McLEAN (interposing). Than the 12 banks——

Mr. CONANT (interposing). In a very much better position: 5 would be stronger than 12.

Senator McLEAN. And four stronger than five?

Senator NELSON. And one stronger than all of them.

Senator McLEAN. The branch bank is merely a distributing reservoir——

Mr. CONANT (interposing). The branches are the absolute subordinates of the central bank. They could not hold a dollar of gold that the bank ordered shipped to New York or to Oklahoma City——

Senator McLEAN. They could not enter into competition with the central bank except to help them out?

Mr. CONANT. That is all.

Senator WEEKS. Mr. Conant, I have not heard you discuss in any way the question of establishing foreign branches or authorizing national banks or other banks to establish foreign branches. You are familiar with the bill, I presume, upon that subject.

Mr. CONANT. I know there is a provision for it.

Senator WEEKS. The provision is the last one in the bill, practically. I wanted to ask you if you thought that provision was adequate for the purpose.

Mr. CONANT. I think it is a desirable thing to permit national banks to establish foreign branches.

Senator WEEKS. Almost everybody agrees to that.

Mr. CONANT. I do not know whether I quite catch the purport of your question.

Senator WEEKS. Let me explain a little. It seems to me that in order to develop our foreign trade, especially in the newer countries, it is absolutely essential that we have banking facilities as well as transportation facilities and other means of doing so. Take South America, for instance. European countries engaged in trade with South America have not only transportation lines, but they have banking facilities there, so that every inducement is offered for those people to buy goods of the European countries. Now, we have no transportation lines sufficient, and we have no banks whatever, and we ought to establish them.

It seems to me we ought very specifically in this bill to provide that sufficient capital be furnished for such purposes, and that such regulations be imposed in connection with the management of those branches that there could be no reasonable possibility or probability of failure, because the failure of an American bank would endanger trade materially. I do not think we ought to leave it open to loose management, and I think we ought to insist that sufficient capital be furnished to compete successfully with the European banks of that character.

Now, this bill proposes that a bank with a capital of $1,000,000 or more may set aside a part of its capital for that purpose. It does not seem to me that a bank with a $1,000,000 capital can afford to set aside sufficient of its capital to warrant its going into any such business as establishing foreign branches.

Mr. CONANT. I should be disposed to agree with you on that. But the bill says, "upon such conditions and under such circumstances as may be prescribed by the Federal reserve board."

Senator WEEKS. But that is quite apart. Can you imagine a condition which would warrant a national bank with a capital of $1,000,000 in this country setting aside enough of its capital under any regulations or restrictions, to properly do such a business?

Mr. CONANT. Not unless it were the old Chemical, with $300,000 capital and $5,000,000 or $6,000,000 surplus. Really, while I think this provision is unobjectionable, except perhaps on the ground suggested by Senator Weeks, I think the real work of that kind would probably not be done by national banks, but banks formed especially for that purpose. National banks, if the law permitted, might become shareholders.

Take the big German banks. They are all, I think, partners of a bank in China, but, from a legal point of view, it is an entirely independent bank, and it is able to do more business, perhaps, and do business on different lines from what the ordinary bank would do or what you would permit a national bank to do.

Senator WEEKS. Some national banks have been invetigating this question and presumably for the purpose of entering into that kind of business, and there was an authorization in a recent appropriation bill for the Secretary of Commerce to send two representatives to South America to examine trade conditions there—one to examine banking conditions, I think, and one to examine trade conditions. I do not recall exactly about that.

But, to my mind, it is of the greatest importance that we make suitable provision for banks in all South American countries, and I think such provisions would be taken advantage of, and it would greatly benefit the trade of this country.

Mr. CONANT. But it does not necessarily follow that the bank you referred to would not see fit to found its own corporation independently.

Senator WEEKS. No; but we are doing something that is fundamental and which ought to last for a long time, and it seems to me we ought to do it right in every particular.

Mr. CONANT. Your suggestion is that this $1,000,000 should be raised to 5 or 10?

Senator WEEKS. I think there ought to be sufficient capital furnished for a branch bank in a foreign country to compete successfully with the banks in Germany, England, France, Italy, and other countries that are in trade with that country.

Mr. CONANT. I agree with you thoroughly, but I am inclined to think you would find in many cases that an independent corporation would be preferable, because it is necessary, I think, under the laws of some Latin-American countries to have a national charter in order to do the kinds of business that you desire.

Senator WEEKS. Quite likely.

Senator NELSON. Could not that foreign exchange business be reached through a strong central bank establishing a branch in England and another at Buenos Aires or at Rio de Janeiro? Now, if those branch banks could make acceptances that would be regarded as valuable and as sound as acceptances of the British banks, that would give us control of it, would it not?

Mr. CONANT. It would help greatly in that direction. I doubt whether it would be advisable for the central bank, if we had one, to go into the South American business except on a limited scale. It could have branches in London, Paris, and Berlin undoubtedly, but in the Latin-American countries I think it would be better to have private banking institutions.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 20

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

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COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman.*

GILBERT M. HITCHCOCK, Nebraska.
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JAMES A. REED, Missouri.
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JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.

KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk.*

Senator NELSON. I had a letter from a wholesale firm in Minneapolis that imports a large amount of coffee from South America. The way they have to pay for that coffee is this: They have to get a letter of credit on some bank in England—an accepting house—and after they have got that letter of credit on that house bills are drawn against that house in England, and they have to pay that accepting house for that bill of credit one-quarter per cent. That is the only way they can do the business, the only way they can purchase the coffee. After they have sent the letter of credit over to the foreign bank in London as a basis for that bank accepting the paper, then they draw on it. The purchaser of the coffee here draws on that London house, and that bill is accepted and received for the coffee. That is the modus operandi. I read the letter here the other day to the committee, and it is exactly the system described by Mr. Warburg in his pamphlet on discounts. Now, all that business we ought to be able to do.

Mr. CONANT. The central bank could do it, directly or indirectly.

Senator WEEKS. There has been more or less said at the hearings—I think Senator Bristow referred to it in his questions this afternoon—about the distribution of circulation. Is it not true, that the circulation will go where it is required promptly under any conditions?

Mr. CONANT. It will go where it is required promptly if the conditions are not restrictive.

Senator WEEKS. That is, if a dam is not built in some direction——

Senator BRISTOW. The circulation will go where the greatest requirement is.

Mr. CONANT. Yes; of course, that is one advantage of the branch system, that a bank in Montreal, for instance, to take a case in Canada, if it finds there is an opportunity to lend heavily in some remote mining section, can send all the money that is needed there, whereas if they relied on local banking sources they would be inadequate. In other words, the branch system offers an unobstructed sluiceway for the flow of banking credit, free from obstacles.

Senator WEEKS. There are some obstacles, but it is, generally speaking, true under our own system. For instance, if the Secretary of the Treasury had seen fit to deposit the $50,000,000, which has been offered to the banks, with these Indiana bankers, is it not true it would not have stayed there two days unless there was a demand for it? And if there were a better demand for it elsewhere, would it not have gone there promptly?

Mr. CONANT. Yes; that would have been the tendency unquestionably.

The CHAIRMAN. The committee is very much obliged to you Mr. Conant, for your courtesy.

(Thereupon, at 4.15 o'clock p. m., the committee stood adjourned to meet to-morrow, Thursday, October 2, 1913, at 10 o'clock a. m.)

THURSDAY, OCTOBER 2, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.15 o'clock a. m.

Present: Senators Reed (presiding), Pomerene, Nelson, Bristow, McLean, and Weeks.

Senator REED. Senator Williams, will you introduce the speakers?

Senator WILLIAMS. Gentlemen of the committee, this is Mr. Foote, vice president of the First National Bank of Commerce of Hattiesburg, Miss., who has come here as a delegate from Mississippi. I have known him for a number of years and he has come here with a delegation of bankers from Mississippi and desires to address the committee.

Senator REED. Will you give the reporter, so that it may appear in the record, your full name, place of residence, and your banking connections?

STATEMENT OF FRANCIS W. FOOTE, VICE PRESIDENT OF THE FIRST NATIONAL BANK OF COMMERCE OF HATTIESBURG, MISS.

Mr. FOOTE. My name is Francis William Foote and I am vice president of the First National Bank of Commerce of Hattiesburg, Miss.

Senator REED. What is the capital of your bank and its reserve?

Mr. FOOTE. $350,000 capital, $70,000 surplus, and $26,000 undivided profits.

Senator O'GORMAN. And deposits?

Mr. FOOTE. Deposits $1,975,000.

Senator REED. How long have you been in the banking business?

Mr. FOOTE. Since 1888.

Senator REED. Where does your bank carry its reserves?

Mr. FOOTE. In New York, St. Louis, Chicago, New Orleans, and in its vault.

Senator REED. You keep part of your reserves in each of the cities you have mentioned?

Mr. FOOTE. We do.

Senator REED. It is suggested we inquire why you carry your reserves in these several cities—have divided the amounts.

Mr. FOOTE. One reason is to enable us to deal in domestic exchange, to draw drafts on those points for the accommodation of our customers, and we get a small rate of interest on our average balances at those banks and get some collection facilities from some of them.

Senator REED. Do you carry with those banks an account in addition to your reserves?

Mr. FOOTE. Our balances at these banks usually exceed the required reserve.

Senator REED. Would you mind telling us to what extent your balances do exceed your reserves, ordinarily? I do not mean in dollars and cents, necessarily, but whether it is half as much more or twice as much or three times, or what it would run.

Mr. FOOTE. The total cash on hand and due from banks of our institution averages about 40 per cent more than the legal requirements.

Senator REED. And it, of course, almost goes without saying that your reason for depositing with these various banks an amount in excess of the reserves you are required to keep, is because it is of advantage to you in your banking business?

Mr. FOOTE. It is.

Senator REED. Are there any other preliminary questions, gentlemen?

Senator WEEKS. As long as Mr. Foote is discussing that I would like to suggest that he state to the committee how much of that money he would have to carry with the banks of Chicago, New Orleans, and New York, for instance, in order to conduct his ordinary business, provided he did not count these deposits as reserves?

Senator REED. How much he would carry if there was no reserve requirement?

Senator WEEKS. Yes.

Mr. FOOTE. We feel, ordinarily, it is necessary to have about 40 per cent more reserve than legal requirements, to take care of the fluctuations of our business and be assured of being able to meet the demands of our customers without encroaching upon required reserves, and we have to carry surplus with our correspondents in about that proportion.

Senator WEEKS. You mean in about the proportion you do now?

Mr. FOOTE. Yes; about 40 per cent.

Senator WEEKS. Even if you did not count them as reserves?

Mr. FOOTE. Well, that is to be sure, always, that we won't run our reserves down below legal requirements.

Senator WEEKS. I think you do not understand me, Mr. Foote. Let us assume that the bill which is now pending, the House bill, becomes a law. In that case you will not carry reserves in banks in New York, Chicago, New Orleans, and other reserve points, but you will have to carry some deposits there in order to furnish your customers with exchange and to conduct the ordinary business in which you are interested. Now, what percentage of the reserves you now carry there do you think you would have to carry in order to conduct your exchange business?

Mr. FOOTE. To handle our business just as we are now?

Senator WEEKS. Yes.

Mr. FOOTE. About 10 per cent of our deposits.

Senator WEEKS. You think you would have to carry about 10 per cent of your deposits?

Mr. FOOTE. To get the collection facilities we now obtain?

Senator REED. I am not sure, Mr. Foote, that I understand you yet, or that you fully understand the question. Let us assume that there was no law requiring you to deposit any reserve in any bank except your own bank. Then, how much money would you have to keep in St. Louis, Chicago, New Orleans, and New York in order to transact your business?

Senator WEEKS. The points where he keeps money now?

Senator REED. Yes.

Mr. FOOTE. To get the facilities?

Senator REED. Yes; as a business proposition. Assume that there was no law requiring you to keep any deposit anywhere, but you were going to transact business as you are now transacting it. How much money would you keep in these cities for your own business purposes?

Mr. FOOTE. About 10 per cent of our deposits.

Senator REED. How much do you have now?

Mr. FOOTE. We average about 16 per cent of our deposits.

Senator NELSON. As I understand him, Senator Reed, the total amount—the average amount—he keeps now in cash in his own vault and in these outside banks amounts to 40 per cent. Is not that it?

Mr. FOOTE. No; 25 per cent.

Senator NELSON. I mean cash in your vaults and what you keep with these reserve banks, including the amount over and above the actual needed reserves?

Mr. FOOTE. No; we are carrying an average of about 25 per cent reserves. The law requires 15. We are carrying about 40 per cent above the legal requirement.

Senator NELSON. You are a country banker, are you not? You come under that head?

Mr. FOOTE. A country bank; yes.

Senator NELSON. You are not required to keep more than 15 per cent reserves?

Mr. FOOTE. Yes; and we carry about 25 per cent.

Senator NELSON. You are required to keep 6 in your own vault?

Mr. FOOTE. Yes; 6 in our own vault and 9 with correspondents; and we are carrying about 25 per cent.

Senator REED. It would take 10 per cent in these banks to accommodate you in a business way, and you would have to keep that much there even though there was no law requiring you to keep a reserve at all.

Mr. FOOTE. Yes.

Senator REED. I understand you now. If there was a Federal reserve bank located in one of those cities, let us assume, would that affect the amount of money you would have to keep in that particular city?

Mr. FOOTE. Yes; I do not think it would be necessary to carry a balance in that particular city unless it was due to the necessity of providing collection facilities. This bill only provides limited facilities.

Senator REED. You think you might, then, have to have arrangements with another bank in the same town where there is a Federal reserve bank located, in order that you would have collection facilities?

Mr. FOOTE. Yes.

Senator REED. I believe now we have covered the preliminary questions.

Senator NELSON. Yes; I suggest that he be allowed to go ahead and make his statement.

Senator BRISTOW. I would like to inquire (perhaps he has already stated; but, if so, my attention was otherwise attracted) what per cent you carry in cash in your vaults, as a rule?

Mr. FOOTE. A fraction above 6 per cent.

Senator NELSON. Of the deposits?

Mr. FOOTE. Yes; we do not purpose having more than 6 per cent, but we usually have a fraction above, probably 6½ or 7.

Senator REED. Is that all, Senator?

Senator BRISTOW. That is all.

Mr. FOOTE. We are interested particularly, gentlemen, in that feature of the bill which provides that regional banks shall act as clearing houses and clearing agents for member banks at par. The country banks all over the United States principally are now earning substantial sums annually in remitting to cover customers' checks. In Hattiesburg we charge $1.25 per thousand for remitting to cover customers' checks, and our bank is earning at the present time $11,151.

Senator NELSON. Out of that branch?

Mr. FOOTE. Out of that branch. We have that much left in our exchange account for absorbing the expenses of collecting such items as we can not collect at par through our correspondents. By placing our reserves throughout the country with different correspondents located at certain strategic points those correspondents check a substantial amount of business through us, collect it, and make no charge. Some business we can not handle at par, and we have some expenses in that particular. The law making it incumbent upon regional banks to receive items at par, the inference being that regional banks would demand that they be remitted at par, would take from the country bank all of the earnings in the way of exchange, and leave the country bank with the burden of collecting all items the country bank might receive on banks that had not become members of the system. For instance, if you have a State bank and, say, it is located at Brookhaven, Miss., and we have a check for $1,000 on your bank, you not being a member of the system, you could not collect that check for us. If it happened to be Brookhaven, we would have to pay $2 a thousand to collect a $1,000 check.

As the law is now framed, we have the expense of collecting the checks we get on State banks who do not become members, which is a vast majority of the character of our checks, and we have to remit everything at par and we earn no exchange. Consequently, we lose all of the revenues of that department of our business and are left with the expenses of collecting all the items we receive of banks that are not members. And I suppose three-fourths of the items we receive are on nonmember banks. We have estimated in our bank that to lose the exchange and to have to pay the charges to collect items that regional banks could not collect would make a difference in our annual earnings of at least $20,000. Our bank has averaged during the past six years a fraction more than 14 per cent per annum net earnings.

Senator NELSON. On the par value of the stock?

Mr. FOOTE. On the par value of the stock. If we had to lose $20,000 a year as a result of this particular provision of the law, the earnings would be reduced practically 6 per cent per annum.

Senator O'GORMAN. What is the capital?

Mr. FOOTE. $350,000.

Senator NELSON. So that you get, really, more than half of your profits from this source?

Senator McLEAN. There should be no restriction against it?

Mr. CONANT. I should think not, if it is really a commercial transaction. There should be every effort to restrict what the chairman alludes to—the lending of current deposits or notes upon fixed investments.

The CHAIRMAN. There are lines of credit given against a particular volume of merchandise which is going through these processes and that kind of paper would be distinctly commercial paper; but the bill itself provides that the Federal reserve board shall differentiate that so as to make it perfectly clear what paper would be available.

Mr. CONANT. I should say they would adopt safe rules.

Senator McLEAN. Senator Bristow asked you some questions with regard to the central bank as a substitute for the plan proposed in this bill. We have heard a great deal about the panic of 1907. The cash of the country was concentrated in New York where it could not be obtained by the country banks, and there is a popular feeling—as has been expressed by Senator Bristow—against any plan that will not prevent that as far as it may be possible.

Mr. CONANT. The answer to that is that you dower any central institution, or any chain of central institutions, with the power to meet the demand for currency by issuing their own notes. That is the key to the situation.

Senator McLEAN. So the central-bank plan would be in a position to restrain and restrict the concentration of money in New York as well as any plan that could be devised, would it not?

Mr. CONANT. I would not say it would restrict its concentration, but it would place it at the command of its owners at any time.

Senator McLEAN. It would be more likely to go where it was needed?

Mr. CONANT. Yes.

Senator McLEAN. Supervision over it would be as complete and effective as would be possible under any plan?

Mr. CONANT. Yes; and the resources are, in a sense, infinite. That is, if you require a certain gold reserve, even assuming that that reserve is rigid——

Senator McLEAN (interposing). So if there is any danger of great combinations of capital trying to control and dominate credit, this bank would be in a position to anticipate that sort of thing and prevent it as far as any plan that has been devised?

Mr. CONANT. Yes; so far as it affects commercial credit. But I think the complaints that people make with respect to that are due to misconception. The credit that people would like to get a share in is the credit for permanent improvements. That situation would not be essentially modified, except in so far as the central bank was a safeguard against crises.

Senator McLEAN. Would not the situation be better than it would be under the system of 12 banks proposed in the pending bill—with one central bank?

Mr. CONANT. It would be in a much better position to protect commercial credit——

Senator McLEAN (interposing). Than the 12 banks——

Mr. CONANT (interposing). In a very much better position: 5 would be stronger than 12.

Senator McLEAN. And four stronger than five?

Senator NELSON. And one stronger than all of them.

Senator McLEAN. The branch bank is merely a distributing reservoir——

Mr. CONANT (interposing). The branches are the absolute subordinates of the central bank. They could not hold a dollar of gold that the bank ordered shipped to New York or to Oklahoma City——

Senator McLEAN. They could not enter into competition with the central bank except to help them out?

Mr. CONANT. That is all.

Senator WEEKS. Mr. Conant, I have not heard you discuss in any way the question of establishing foreign branches or authorizing national banks or other banks to establish foreign branches. You are familiar with the bill, I presume, upon that subject.

Mr. CONANT. I know there is a provision for it.

Senator WEEKS. The provision is the last one in the bill, practically. I wanted to ask you if you thought that provision was adequate for the purpose.

Mr. CONANT. I think it is a desirable thing to permit national banks to establish foreign branches.

Senator WEEKS. Almost everybody agrees to that.

Mr. CONANT. I do not know whether I quite catch the purport of your question.

Senator WEEKS. Let me explain a little. It seems to me that in order to develop our foreign trade, especially in the newer countries, it is absolutely essential that we have banking facilities as well as transportation facilities and other means of doing so. Take South America, for instance. European countries engaged in trade with South America have not only transportation lines, but they have banking facilities there, so that every inducement is offered for those people to buy goods of the European countries. Now, we have no transportation lines sufficient, and we have no banks whatever, and we ought to establish them.

It seems to me we ought very specifically in this bill to provide that sufficient capital be furnished for such purposes, and that such regulations be imposed in connection with the management of those branches that there could be no reasonable possibility or probability of failure, because the failure of an American bank would endanger trade materially. I do not think we ought to leave it open to loose management, and I think we ought to insist that sufficient capital be furnished to compete successfully with the European banks of that character.

Now, this bill proposes that a bank with a capital of $1,000,000 or more may set aside a part of its capital for that purpose. It does not seem to me that a bank with a $1,000,000 capital can afford to set aside sufficient of its capital to warrant its going into any such business as establishing foreign branches.

Mr. CONANT. I should be disposed to agree with you on that. But the bill says, "upon such conditions and under such circumstances as may be prescribed by the Federal reserve board."

Senator WEEKS. But that is quite apart. Can you imagine a condition which would warrant a national bank with a capital of $1,000,000 in this country setting aside enough of its capital under any regulations or restrictions, to properly do such a business?

Mr. CONANT. Not unless it were the old Chemical, with $300,000 capital and $5,000,000 or $6,000,000 surplus. Really, while I think this provision is unobjectionable, except perhaps on the ground suggested by Senator Weeks, I think the real work of that kind would probably not be done by national banks, but banks formed especially for that purpose. National banks, if the law permitted, might become shareholders.

Take the big German banks. They are all, I think, partners of a bank in China, but, from a legal point of view, it is an entirely independent bank, and it is able to do more business, perhaps, and do business on different lines from what the ordinary bank would do or what you would permit a national bank to do.

Senator WEEKS. Some national banks have been invetigating this question and presumably for the purpose of entering into that kind of business, and there was an authorization in a recent appropriation bill for the Secretary of Commerce to send two representatives to South America to examine trade conditions there—one to examine banking conditions, I think, and one to examine trade conditions. I do not recall exactly about that.

But, to my mind, it is of the greatest importance that we make suitable provision for banks in all South American countries, and I think such provisions would be taken advantage of, and it would greatly benefit the trade of this country.

Mr. CONANT. But it does not necessarily follow that the bank you referred to would not see fit to found its own corporation independently.

Senator WEEKS. No; but we are doing something that is fundamental and which ought to last for a long time, and it seems to me we ought to do it right in every particular.

Mr. CONANT. Your suggestion is that this $1,000,000 should be raised to 5 or 10?

Senator WEEKS. I think there ought to be sufficient capital furnished for a branch bank in a foreign country to compete successfully with the banks in Germany, England, France, Italy, and other countries that are in trade with that country.

Mr. CONANT. I agree with you thoroughly, but I am inclined to think you would find in many cases that an independent corporation would be preferable, because it is necessary, I think, under the laws of some Latin-American countries to have a national charter in order to do the kinds of business that you desire.

Senator WEEKS. Quite likely.

Senator NELSON. Could not that foreign exchange business be reached through a strong central bank establishing a branch in England and another at Buenos Aires or at Rio de Janeiro? Now, if those branch banks could make acceptances that would be regarded as valuable and as sound as acceptances of the British banks, that would give us control of it, would it not?

Mr. CONANT. It would help greatly in that direction. I doubt whether it would be advisable for the central bank, if we had one, to go into the South American business except on a limited scale. It could have branches in London, Paris, and Berlin undoubtedly, but in the Latin-American countries I think it would be better to have private banking institutions.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

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Mr. FOOTE. It is.

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Senator WEEKS. As long as Mr. Foote is discussing that I would like to suggest that he state to the committee how much of that money he would have to carry with the banks of Chicago, New Orleans, and New York, for instance, in order to conduct his ordinary business, provided he did not count these deposits as reserves?

Senator REED. How much he would carry if there was no reserve requirement?

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COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman*.

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JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

Senator NELSON. I had a letter from a wholesale firm in Minneapolis that imports a large amount of coffee from South America. The way they have to pay for that coffee is this: They have to get a letter of credit on some bank in England—an accepting house—and after they have got that letter of credit on that house bills are drawn against that house in England, and they have to pay that accepting house for that bill of credit one-quarter per cent. That is the only way they can do the business, the only way they can purchase the coffee. After they have sent the letter of credit over to the foreign bank in London as a basis for that bank accepting the paper, then they draw on it. The purchaser of the coffee here draws on that London house, and that bill is accepted and received for the coffee. That is the modus operandi. I read the letter here the other day to the committee, and it is exactly the system described by Mr. Warburg in his pamphlet on discounts. Now, all that business we ought to be able to do.

Mr. CONANT. The central bank could do it, directly or indirectly.

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Mr. CONANT. It will go where it is required promptly if the conditions are not restrictive.

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The CHAIRMAN. The committee is very much obliged to you Mr. Conant, for your courtesy.

(Thereupon, at 4.15 o'clock p. m., the committee stood adjourned to meet to-morrow, Thursday, October 2, 1913, at 10 o'clock a. m.)

THURSDAY, OCTOBER 2, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.15 o'clock a. m.

Present: Senators Reed (presiding), Pomerene, Nelson, Bristow, McLean, and Weeks.

Senator REED. Senator Williams, will you introduce the speakers?

Senator WILLIAMS. Gentlemen of the committee, this is Mr. Foote, vice president of the First National Bank of Commerce of Hattiesburg, Miss., who has come here as a delegate from Mississippi. I have known him for a number of years and he has come here with a delegation of bankers from Mississippi and desires to address the committee.

Senator REED. Will you give the reporter, so that it may appear in the record, your full name, place of residence, and your banking connections?

STATEMENT OF FRANCIS W. FOOTE, VICE PRESIDENT OF THE FIRST NATIONAL BANK OF COMMERCE OF HATTIESBURG, MISS.

Mr. FOOTE. My name is Francis William Foote and I am vice president of the First National Bank of Commerce of Hattiesburg, Miss.

Senator REED. What is the capital of your bank and its reserve?

Mr. FOOTE. $350,000 capital, $70,000 surplus, and $26,000 undivided profits.

Senator O'GORMAN. And deposits?

Mr. FOOTE. Deposits $1,975,000.

Senator REED. How long have you been in the banking business?

Mr. FOOTE. Since 1888.

Senator REED. Where does your bank carry its reserves?

Mr. FOOTE. In New York, St. Louis, Chicago, New Orleans, and in its vault.

Senator REED. You keep part of your reserves in each of the cities you have mentioned?

Mr. FOOTE. We do.

Senator REED. It is suggested we inquire why you carry your reserves in these several cities—have divided the amounts.

Mr. FOOTE. One reason is to enable us to deal in domestic exchange, to draw drafts on those points for the accommodation of our customers, and we get a small rate of interest on our average balances at those banks and get some collection facilities from some of them.

Senator REED. Do you carry with those banks an account in addition to your reserves?

Mr. FOOTE. Our balances at these banks usually exceed the required reserve.

Senator REED. Would you mind telling us to what extent your balances do exceed your reserves, ordinarily? I do not mean in dollars and cents, necessarily, but whether it is half as much more or twice as much or three times, or what it would run.

Mr. FOOTE. The total cash on hand and due from banks of our institution averages about 40 per cent more than the legal requirements.

Senator REED. And it, of course, almost goes without saying that your reason for depositing with these various banks an amount in excess of the reserves you are required to keep, is because it is of advantage to you in your banking business?

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Senator WEEKS. You mean in about the proportion you do now?

Mr. FOOTE. Yes; about 40 per cent.

Senator WEEKS. Even if you did not count them as reserves?

Mr. FOOTE. Well, that is to be sure, always, that we won't run our reserves down below legal requirements.

Senator WEEKS. I think you do not understand me, Mr. Foote. Let us assume that the bill which is now pending, the House bill, becomes a law. In that case you will not carry reserves in banks in New York, Chicago, New Orleans, and other reserve points, but you will have to carry some deposits there in order to furnish your customers with exchange and to conduct the ordinary business in which you are interested. Now, what percentage of the reserves you now carry there do you think you would have to carry in order to conduct your exchange business?

Mr. FOOTE. To handle our business just as we are now?

Senator WEEKS. Yes.

Mr. FOOTE. About 10 per cent of our deposits.

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Senator NELSON. You are a country banker, are you not? You come under that head?

Mr. FOOTE. A country bank; yes.

Senator NELSON. You are not required to keep more than 15 per cent reserves?

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Senator NELSON. You are required to keep 6 in your own vault?

Mr. FOOTE. Yes; 6 in our own vault and 9 with correspondents; and we are carrying about 25 per cent.

Senator REED. It would take 10 per cent in these banks to accommodate you in a business way, and you would have to keep that much there even though there was no law requiring you to keep a reserve at all.

Mr. FOOTE. Yes.

Senator REED. I understand you now. If there was a Federal reserve bank located in one of those cities, let us assume, would that affect the amount of money you would have to keep in that particular city?

Mr. FOOTE. Yes; I do not think it would be necessary to carry a balance in that particular city unless it was due to the necessity of providing collection facilities. This bill only provides limited facilities.

Senator REED. You think you might, then, have to have arrangements with another bank in the same town where there is a Federal reserve bank located, in order that you would have collection facilities?

Mr. FOOTE. Yes.

Senator REED. I believe now we have covered the preliminary questions.

Senator NELSON. Yes; I suggest that he be allowed to go ahead and make his statement.

Senator BRISTOW. I would like to inquire (perhaps he has already stated; but, if so, my attention was otherwise attracted) what per cent you carry in cash in your vaults, as a rule?

Mr. FOOTE. A fraction above 6 per cent.

Senator NELSON. Of the deposits?

Mr. FOOTE. Yes; we do not purpose having more than 6 per cent, but we usually have a fraction above, probably 6½ or 7.

Senator REED. Is that all, Senator?

Senator BRISTOW. That is all.

Mr. FOOTE. We are interested particularly, gentlemen, in that feature of the bill which provides that regional banks shall act as clearing houses and clearing agents for member banks at par. The country banks all over the United States principally are now earning substantial sums annually in remitting to cover customers' checks. In Hattiesburg we charge $1.25 per thousand for remitting to cover customers' checks, and our bank is earning at the present time $11,151.

Senator NELSON. Out of that branch?

Mr. FOOTE. Out of that branch. We have that much left in our exchange account for absorbing the expenses of collecting such items as we can not collect at par through our correspondents. By placing our reserves throughout the country with different correspondents located at certain strategic points those correspondents check a substantial amount of business through us, collect it, and make no charge. Some business we can not handle at par, and we have some expenses in that particular. The law making it incumbent upon regional banks to receive items at par, the inference being that regional banks would demand that they be remitted at par, would take from the country bank all of the earnings in the way of exchange, and leave the country bank with the burden of collecting all items the country bank might receive on banks that had not become members of the system. For instance, if you have a State bank and, say, it is located at Brookhaven, Miss., and we have a check for $1,000 on your bank, you not being a member of the system, you could not collect that check for us. If it happened to be Brookhaven, we would have to pay $2 a thousand to collect a $1,000 check.

As the law is now framed, we have the expense of collecting the checks we get on State banks who do not become members, which is a vast majority of the character of our checks, and we have to remit everything at par and we earn no exchange. Consequently, we lose all of the revenues of that department of our business and are left with the expenses of collecting all the items we receive of banks that are not members. And I suppose three-fourths of the items we receive are on nonmember banks. We have estimated in our bank that to lose the exchange and to have to pay the charges to collect items that regional banks could not collect would make a difference in our annual earnings of at least $20,000. Our bank has averaged during the past six years a fraction more than 14 per cent per annum net earnings.

Senator NELSON. On the par value of the stock?

Mr. FOOTE. On the par value of the stock. If we had to lose $20,000 a year as a result of this particular provision of the law, the earnings would be reduced practically 6 per cent per annum.

Senator O'GORMAN. What is the capital?

Mr. FOOTE. $350,000.

Senator NELSON. So that you get, really, more than half of your profits from this source?

Senator McLean. There should be no restriction against it?

Mr. Conant. I should think not, if it is really a commercial transaction. There should be every effort to restrict what the chairman alludes to—the lending of current deposits or notes upon fixed investments.

The Chairman. There are lines of credit given against a particular volume of merchandise which is going through these processes and that kind of paper would be distinctly commercial paper; but the bill itself provides that the Federal reserve board shall differentiate that so as to make it perfectly clear what paper would be available.

Mr. Conant. I should say they would adopt safe rules.

Senator McLean. Senator Bristow asked you some questions with regard to the central bank as a substitute for the plan proposed in this bill. We have heard a great deal about the panic of 1907. The cash of the country was concentrated in New York where it could not be obtained by the country banks, and there is a popular feeling—as has been expressed by Senator Bristow—against any plan that will not prevent that as far as it may be possible.

Mr. Conant. The answer to that is that you dower any central institution, or any chain of central institutions, with the power to meet the demand for currency by issuing their own notes. That is the key to the situation.

Senator McLean. So the central-bank plan would be in a position to restrain and restrict the concentration of money in New York as well as any plan that could be devised, would it not?

Mr. Conant. I would not say it would restrict its concentration, but it would place it at the command of its owners at any time.

Senator McLean. It would be more likely to go where it was needed?

Mr. Conant. Yes.

Senator McLean. Supervision over it would be as complete and effective as would be possible under any plan?

Mr. Conant. Yes; and the resources are, in a sense, infinite. That is, if you require a certain gold reserve, even assuming that that reserve is rigid——

Senator McLean (interposing). So if there is any danger of great combinations of capital trying to control and dominate credit, this bank would be in a position to anticipate that sort of thing and prevent it as far as any plan that has been devised?

Mr. Conant. Yes; so far as it affects commercial credit. But I think the complaints that people make with respect to that are due to misconception. The credit that people would like to get a share in is the credit for permanent improvements. That situation would not be essentially modified, except in so far as the central bank was a safeguard against crises.

Senator McLean. Would not the situation be better than it would be under the system of 12 banks proposed in the pending bill—with one central bank?

Mr. Conant. It would be in a much better position to protect commercial credit——

Senator McLean (interposing). Than the 12 banks——

Mr. Conant (interposing). In a very much better position; 5 would be stronger than 12.

Senator McLean. And four stronger than five?

Senator NELSON. And one stronger than all of them.

Senator McLEAN. The branch bank is merely a distributing reservoir——

Mr. CONANT (interposing). The branches are the absolute subordinates of the central bank. They could not hold a dollar of gold that the bank ordered shipped to New York or to Oklahoma City——

Senator McLEAN. They could not enter into competition with the central bank except to help them out?

Mr. CONANT. That is all.

Senator WEEKS. Mr. Conant, I have not heard you discuss in any way the question of establishing foreign branches or authorizing national banks or other banks to establish foreign branches. You are familiar with the bill, I presume, upon that subject.

Mr. CONANT. I know there is a provision for it.

Senator WEEKS. The provision is the last one in the bill, practically. I wanted to ask you if you thought that provision was adequate for the purpose.

Mr. CONANT. I think it is a desirable thing to permit national banks to establish foreign branches.

Senator WEEKS. Almost everybody agrees to that.

Mr. CONANT. I do not know whether I quite catch the purport of your question.

Senator WEEKS. Let me explain a little. It seems to me that in order to develop our foreign trade, especially in the newer countries, it is absolutely essential that we have banking facilities as well as transportation facilities and other means of doing so. Take South America, for instance. European countries engaged in trade with South America have not only transportation lines, but they have banking facilities there, so that every inducement is offered for those people to buy goods of the European countries. Now, we have no transportation lines sufficient, and we have no banks whatever, and we ought to establish them.

It seems to me we ought very specifically in this bill to provide that sufficient capital be furnished for such purposes, and that such regulations be imposed in connection with the management of those branches that there could be no reasonable possibility or probability of failure, because the failure of an American bank would endanger trade materially. I do not think we ought to leave it open to loose management, and I think we ought to insist that sufficient capital be furnished to compete successfully with the European banks of that character.

Now, this bill proposes that a bank with a capital of $1,000,000 or more may set aside a part of its capital for that purpose. It does not seem to me that a bank with a $1,000,000 capital can afford to set aside sufficient of its capital to warrant its going into any such business as establishing foreign branches.

Mr. CONANT. I should be disposed to agree with you on that. But the bill says, "upon such conditions and under such circumstances as may be prescribed by the Federal reserve board."

Senator WEEKS. But that is quite apart. Can you imagine a condition which would warrant a national bank with a capital of $1,000,000 in this country setting aside enough of its capital under any regulations or restrictions, to properly do such a business?

Mr. Conant. Not unless it were the old Chemical, with $300,000 capital and $5,000,000 or $6,000,000 surplus. Really, while I think this provision is unobjectionable, except perhaps on the ground suggested by Senator Weeks, I think the real work of that kind would probably not be done by national banks, but banks formed especially for that purpose. National banks, if the law permitted, might become shareholders.

Take the big German banks. They are all, I think, partners of a bank in China, but, from a legal point of view, it is an entirely independent bank, and it is able to do more business, perhaps, and do business on different lines from what the ordinary bank would do or what you would permit a national bank to do.

Senator Weeks. Some national banks have been invetigating this question and presumably for the purpose of entering into that kind of business, and there was an authorization in a recent appropriation bill for the Secretary of Commerce to send two representatives to South America to examine trade conditions there—one to examine banking conditions, I think, and one to examine trade conditions. I do not recall exactly about that.

But, to my mind, it is of the greatest importance that we make suitable provision for banks in all South American countries, and I think such provisions would be taken advantage of, and it would greatly benefit the trade of this country.

Mr. Conant. But it does not necessarily follow that the bank you referred to would not see fit to found its own corporation independently.

Senator Weeks. No; but we are doing something that is fundamental and which ought to last for a long time, and it seems to me we ought to do it right in every particular.

Mr. Conant. Your suggestion is that this $1,000,000 should be raised to 5 or 10?

Senator Weeks. I think there ought to be sufficient capital furnished for a branch bank in a foreign country to compete successfully with the banks in Germany, England, France, Italy, and other countries that are in trade with that country.

Mr. Conant. I agree with you thoroughly, but I am inclined to think you would find in many cases that an independent corporation would be preferable, because it is necessary, I think, under the laws of some Latin-American countries to have a national charter in order to do the kinds of business that you desire.

Senator Weeks. Quite likely.

Senator Nelson. Could not that foreign exchange business be reached through a strong central bank establishing a branch in England and another at Buenos Aires or at Rio de Janeiro? Now, if those branch banks could make acceptances that would be regarded as valuable and as sound as acceptances of the British banks, that would give us control of it, would it not?

Mr. Conant. It would help greatly in that direction. I doubt whether it would be advisable for the central bank, if we had one, to go into the South American business except on a limited scale. It could have branches in London, Paris, and Berlin undoubtedly, but in the Latin-American countries I think it would be better to have private banking institutions.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 20

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman.*

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.

KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
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Senator NELSON. You are required to keep 6 in your own vault?

Mr. FOOTE. Yes; 6 in our own vault and 9 with correspondents; and we are carrying about 25 per cent.

Senator REED. It would take 10 per cent in these banks to accommodate you in a business way, and you would have to keep that much there even though there was no law requiring you to keep a reserve at all.

Mr. FOOTE. Yes.

Senator REED. I understand you now. If there was a Federal reserve bank located in one of those cities, let us assume, would that affect the amount of money you would have to keep in that particular city?

Mr. FOOTE. Yes; I do not think it would be necessary to carry a balance in that particular city unless it was due to the necessity of providing collection facilities. This bill only provides limited facilities.

Senator REED. You think you might, then, have to have arrangements with another bank in the same town where there is a Federal reserve bank located, in order that you would have collection facilities?

Mr. FOOTE. Yes.

Senator REED. I believe now we have covered the preliminary questions.

Senator NELSON. Yes; I suggest that he be allowed to go ahead and make his statement.

Senator BRISTOW. I would like to inquire (perhaps he has already stated; but, if so, my attention was otherwise attracted) what per cent you carry in cash in your vaults, as a rule?

Mr. FOOTE. A fraction above 6 per cent.

Senator NELSON. Of the deposits?

Mr. FOOTE. Yes; we do not purpose having more than 6 per cent, but we usually have a fraction above, probably 6½ or 7.

Senator REED. Is that all, Senator?

Senator BRISTOW. That is all.

Mr. FOOTE. We are interested particularly, gentlemen, in that feature of the bill which provides that regional banks shall act as clearing houses and clearing agents for member banks at par. The country banks all over the United States principally are now earning substantial sums annually in remitting to cover customers' checks. In Hattiesburg we charge $1.25 per thousand for remitting to cover customers' checks, and our bank is earning at the present time $11,151.

Senator NELSON. Out of that branch?

Mr. FOOTE. Out of that branch. We have that much left in our exchange account for absorbing the expenses of collecting such items as we can not collect at par through our correspondents. By placing our reserves throughout the country with different correspondents located at certain strategic points those correspondents check a substantial amount of business through us, collect it, and make no charge. Some business we can not handle at par, and we have some expenses in that particular. The law making it incumbent upon regional banks to receive items at par, the inference being that regional banks would demand that they be remitted at par, would take from the country bank all of the earnings in the way of exchange, and leave the country bank with the burden of collecting all items the country bank might receive on banks that had not become members of the system. For instance, if you have a State bank and, say, it is located at Brookhaven, Miss., and we have a check for $1,000 on your bank, you not being a member of the system, you could not collect that check for us. If it happened to be Brookhaven, we would have to pay $2 a thousand to collect a $1,000 check.

As the law is now framed, we have the expense of collecting the checks we get on State banks who do not become members, which is a vast majority of the character of our checks, and we have to remit everything at par and we earn no exchange. Consequently, we lose all of the revenues of that department of our business and are left with the expenses of collecting all the items we receive of banks that are not members. And I suppose three-fourths of the items we receive are on nonmember banks. We have estimated in our bank that to lose the exchange and to have to pay the charges to collect items that regional banks could not collect would make a difference in our annual earnings of at least $20,000. Our bank has averaged during the past six years a fraction more than 14 per cent per annum net earnings.

Senator NELSON. On the par value of the stock?

Mr. FOOTE. On the par value of the stock. If we had to lose $20,000 a year as a result of this particular provision of the law, the earnings would be reduced practically 6 per cent per annum.

Senator O'GORMAN. What is the capital?

Mr. FOOTE. $350,000.

Senator NELSON. So that you get, really, more than half of your profits from this source?

Mr. FOOTE. No. We get 6 per cent out of the 14¼. It would be nearly 50 per cent, between 40 and 50 per cent.

Senator REED. More than that. Six from 14¼ leaves 8¼ per cent?

Mr. FOOTE. We lose 6 per cent and are earning fraction over 14 now.

Senator REED. And would lose——

Mr. FOOTE (interposing). We would lose $20,000 a year at present.

Senator REED. And what percentage would that leave you?

Mr. FOOTE. A fraction over 8 per cent left. We are paying 8 per cent dividends.

Senator WEEKS. Now, Mr. Foote, how much could you save in the operation of your banks if you did not have this collection business?

Mr. FOOTE. If we did no collection business for our customers?

(At this point Senator Hitchcock entered the room and took the chair.)

Senator WEEKS. Yes; no collections of the character you are now referring to.

Mr. FOOTE. We estimate it costs us $8,000 to do such collecting as we can not get done at par through our correspondents.

Senator WEEKS. That is an answer to the question?

Mr. FOOTE. Yes. Now, that would leave us a fraction above 8 per cent for the shareholders, and we are paying 8 per cent dividends, and it would mean that practically all of the earnings of the bank would be absorbed if we continue to pay 8 per cent. We could not well afford to pay less than 8 per cent, because the value of our stock is about $127 per share. The stockholders are only receiving a fraction more than 6 per cent on the value of the investment at the present time. As to how that would effect the banks of the State of Mississippi at large, if they all became member banks, would be illustrated by the results obtained, I judge, in the report of the auditor, showing how much the undivided profits of our banks have increased. The last examination he made showed that for two years the banks had averaged an increase of $475,000 per annum, and they had that much profit left after paying dividends. We estimate that the total exchange earnings in Mississippi are $650,000 per annum, and if the banks of Mississippi lose $650,000 per annum in the way of exchange earnings there would be a deficit in the amount of money with which to pay dividends of $175,000 per annum, and the banks are generally paying 8 per cent in the State. The stock in the State is worth generally about $150 per share.

We feel that our best interests demand that the regional banks do not engage at all in the collection of sundry items, but that the banks be permitted to continue handling sundry items just as they are at present. A good many communities are supplied with bank capital by being able to bid for these items. These items flow to the points now that can receive them to the best advantage, and a great many cities of the country, particularly the minor cities, have their banking capital largely augmented by the balances of the country banks. The country banks carry these balances at those particular points because they get collection facilities, and it not only works out to an economic advantage to the country banks but it is a great advantage to many of the minor cities of the country. The country bank can distribute its reserves about and in return get collection facilities.

In that way there is a great economy in the business, and at the same time the country bank is permitted to earn money by remitting to cover its customers' checks.

Senator REED. I want to be sure I understand you. If I catch your meaning it is this: That there are small places that can maintain banks under this present system, because they are enabled to make these collection charges, and if they were deprived of the profits of collection they could not maintain themselves in these small communities.

Mr. FOOTE. That is the fact.

Senator REED. Therefore some small communities which now have banks, or which might, under the present system, get banks, would be deprived of them, in your opinion, if this bill was enacted in its present form?

Mr. FOOTE. Yes, sir.

Senator REED. Is it a great advantage or a small advantage, or what kind of an advantage is it, to the merchant and the inhabitant, generally, of the small place to have a bank? Does it more than compensate him for the charges he has to pay for collections?

Mr. FOOTE. It does. The cashier of the bank at Forest, Miss., told me a few days ago that his bank had earned this year $1,800 in interest and $1,200 in exchange.

Senator SHAFROTH. What salaries do you pay your officers?

Mr. FOOTE. In our banks?

Senator SHAFROTH. Yes; in your banks.

Mr. FOOTE. The principal salary in our bank is $4,500. The next highest salary is $3,000, and the next highest is $2,000.

Senator O'GORMAN. What position is held by the person receiving $3,000?

Mr. FOOTE. The person receiving $3,000 acts as cashier.

Senator O'GORMAN. Is that good compensation for a bank cashier in your State—$3,000?

Mr. FOOTE. Yes.

Senator O'GORMAN. Some get less?

Mr. FOOTE. Most of them get less.

Senator O'GORMAN. What would be the average pay of a bank cashier in your State?

Mr. FOOTE. Considering the large number of small banks, I would say the average would not exceed $2,000.

Senator HITCHCOCK. Have you stated the deposits of your bank?

Mr. FOOTE. Yes; $1,975,000.

Senator HITCHCOCK. And the capital?

Mr. FOOTE. $350,000.

Senator HITCHCOCK. Have you stated where you keep your reserves now?

Mr. FOOTE. Yes.

Senator HITCHCOCK. Do you rediscount at more than one reserve center?

Mr. FOOTE. At times we do.

Senator HITCHCOCK. And for what length of time do you generally require rediscounts?

Mr. FOOTE. We have in the past had rediscounts that ran continuously for as long as eight months, but in recent years we have not had

rediscounts for long periods. We have not borrowed any money so far this season. We probably will borrow money within the next 30 days.

Senator HITCHCOCK. Do you find any difference in the terms of the rediscount at different reserve centers?

Mr. FOOTE. We get very much better accommodations at New York and very much better rates.

Senator NELSON. What is the mode of making your loans? Do you give your own note with the notes of the bank put up as collateral?

Mr. FOOTE. We usually give our own notes secured with the collateral of the bank.

Senator NELSON. So that you do not obtain your money on a mere discount of the notes?

Mr. FOOTE. Seldom. We have discounted some paper, but most of the money we borrow——

Senator NELSON (interposing). Is on your own notes?

Mr. FOOTE. Yes; on our own notes, secured by collateral.

Senator WEEKS. Before you go further, do you have any difficulty in obtaining accommodations when you need to rediscount?

Mr. FOOTE. We have never had any trouble at all.

Senator O'GORMAN. Where would you rediscount?

Mr. FOOTE. Principally in New York——

Senator HITCHCOCK. Does your rediscount ever amount to more than your capital?

Mr. FOOTE. We have probably, one season only, borrowed more money than our capital.

Senator HITCHCOCK. Will you state what your rediscounts cost you, maximum and minimum?

Mr. FOOTE. We have in recent years—we have not been able to get money for less than 4 per cent, and have paid as much as 6 per cent.

Senator HITCHCOCK. For a short time?

Mr. FOOTE. Yes.

Senator O'GORMAN. And what would your average loan carry in your own State? What would you get from the borrower?

Mr. FOOTE. Eight per cent is the prevailing rate.

Senator O'GORMAN. So you have half of it profit. That is good money. You get 8 per cent on money which you get in New York for 4 or less?

Mr. FOOTE. We lend a good deal at less than 8 per cent. We try to carry a good deal of commercial paper, and very often that does not pay more than 5 per cent. But, as a general rule, our local paper pays 8 per cent.

Senator NELSON. That is farmers' paper and planters' paper?

Mr. FOOTE. Yes.

Senator REED. What do you describe as commercial paper?

Mr. FOOTE. Paper of nonresidents; paper bought from brokers; paper that our debtors do not know who holds it; so the people are not able to treat with you for renewals and extensions, the holder of the paper being a secret. We forward the paper for collection at maturity to the point where it is made payable.

Senator HITCHCOCK. What is your nearest large financial center?

Mr. FOOTE. New Orleans.

Senator HITCHCOCK. Is there not a city with a large clearing house nearer than New Orleans?

Mr. FOOTE. Mobile is a few miles nearer.

Senator HITCHCOCK. How far is Mobile?

Mr. FOOTE. About 85 miles; New Orleans is 110 miles.

Senator HITCHCOCK. Suppose there was a subtreasury of the United States located in Mobile, where you could go at any time with proper securities, including commercial paper, and secure from the Government an amount of currency, say, not exceeding 75 per cent of your capital stock, at a certain rate of interest for 60 days, a higher rate of interest for 90 days, and a still higher rate for 4 or 5 months' paper, would that be a facility which you could utilize?

Mr. FOOTE. Yes.

Senator HITCHCOCK. You have national banks?

Mr. FOOTE. Yes.

Senator HITCHCOCK. How frequently does the bank examiner go through your bank?

Mr. FOOTE. Twice every year.

Senator HITCHCOCK. In addition to that, you make statements to the Government?

Mr. FOOTE. We do.

Senator HITCHCOCK. How many times a year?

Mr. FOOTE. Usually five times a year.

Senator REED. Are these bank examinations pretty thorough?

Mr. FOOTE. The examiner in our district is unusually good, is very thoroughgoing.

Senator REED. Does he become so familiar with your business that he is able to tell anything about the character of the notes that you carry, as to whether the people who make them are financially good?

Mr. FOOTE. Yes. When an examiner is permitted to remain in a district he becomes familiar with the character and condition of the principal borrowers. The examiner who visits us now keeps a list of all our large loans, and when he examines the bank he checks up the debts of those particular borrowers to learn whether or not they are reducing or whether or not they are increasing their debts, and he goes very carefully into the nature of their accounts. He requires us to submit the financial statements these concerns make to the bank, and he examines the executive committee of the bank regarding the character of the paper.

Senator REED. I can sometimes ask a question better by making a statement. It is claimed by some people that a bank examiner can not obtain such a knowledge of the character of securities carried by a bank, such knowledge as to enable him to pass upon those securities and be a real check upon the bank's operations. What do you think about that, from your experience?

Mr. FOOTE. Our examiners have always been able to go very definitely into the merits of the large loans, the credit of the bank.

Senator REED. I suppose the little individual notes that come in and go out from time to time he would not know so much about?

Mr. FOOTE. No. We usually have 1,500 notes, and the examiner usually does not pay much attention to loans under $5,000, but he generally gives loans of $5,000 and above very careful consideration.

Senator REED. Could he by inquiry learn pretty thoroughly in regard to these larger borrowers?

Mr. FOOTE. Yes.

Senator REED. How would he do that, or how could he do it? Would he do it by inquiring from other banks in the same city?

Mr. FOOTE. Very often the examiner is familiar with these loans by having to pass on the same paper in the other banks.

Senator REED. So the bank examiner not only knows whether a man is borrowing from you, but he has the opportunity of knowing whether he is borrowing from any other bank in his district?

Mr. FOOTE. Yes; any national bank. Where they have State-bank supervision they usually work in harmony with the State bank examiners.

Senator REED. Now, do you think if a bank wanted to borrow money from a central reserve bank or from the Government, and put up its paper, that the O. K. of the bank examiner upon that paper would be a reasonable safeguard so that it could be accepted as a business proposition with reasonable safety? Or would you think there ought to be some other and further check?

Mr. FOOTE. I think there ought to be some other and further check, unless the examiners take more time in making the examination. I think if they are going to be required to pass on credits to that extent they ought to give more time to this work, and if they did I should think they would be fully competent.

Senator REED. Suppose a bank examiner's territory was cut to one-half of the average so he had twice as much time, you think that would be sufficient?

Mr. FOOTE. Yes; I think he would be thoroughly competent, if he put in twice the time in a bank he examined, to pass on credits.

Senator O'GORMAN. How often does the bank examiner visit your bank?

Mr. FOOTE. Twice every year.

Senator O'GORMAN. And how many days does he spend in your bank?

Mr. FOOTE. The last time he examined us he was there two days. He has spent as many as four days.

Senator O'GORMAN. Twice a year?

Mr. FOOTE. Yes.

Senator O'GORMAN. Does he come at regular appointed times?

Mr. FOOTE. No; he usually comes within 60 days of a certain time.

Senator O'GORMAN. In other words, you would have no difficulty in anticipating about the time he was coming around?

Mr. FOOTE. Usually it would be somewhere within a period of 60 days of his previous visit.

Senator HITCHCOCK. The intention is you shall not know in advance of his coming?

Mr. FOOTE. We never know.

Senator O'GORMAN. That is, you never know within 60 days?

Mr. FOOTE. We were examined in August this year, and the examiner had examined banks all round a month or two before he made our examination. We had been expecting him, but he went to another part of the territory and came back. They endeavor to keep that a secret, or try to prevent the bank's knowing when they are coming.

Senator REED. But, of course, if you were examined about twice a year, you could readily anticipate that some time within 60 days

before or 60 days after the previous examination—I mean the next year—he would probably be around?

Mr. FOOTE. Yes.

Senator REED. Because that would cover four months of time?

Mr. FOOTE. Yes.

Senator REED. And if you were undertaking to arrange your cash on hand, if you did not know within 60 days, you would have to carry it some time?

Mr. FOOTE. Yes.

Senator REED. Pardon me for using "you" for that kind of an illustration. If any bank did not know within 60 days of when he was coming, and was going to carry cash into its vaults to make a good showing, it would have to be prepared for some time?

Mr. FOOTE. Yes, sir.

Senator WEEKS. Do you not think if a bank examiner established a reputation as a thoroughly competent credit man, that some bank in New Orleans would be taking him on and paying him $10,000 a year?

Mr. FOOTE. There would be a strong demand for that sort of man.

Senator REED. There would probably be other ambitious gentlemen ready to start in and work their way up?

Mr. FOOTE. Yes, sir.

Senator HITCHCOCK. Mr. Foote, suppose such a system were established as the subtreasury that has been suggested throughout the country, and you could occasionally deposit securities with the subtreasury and borrow from the Government currency to the extent of 75 per cent of your capital, and the Government also got the first lien on all your assets in certain cases, do you think the fact that the Government had the first lien on your assets would impair your ability to do business with your correspondents in New York and other places?

Mr. FOOTE. No; I think not.

Senator HITCHCOCK. You would still have your reserve open to use if the funds of the Government were not sufficient to meet your seasonal needs?

Mr. FOOTE. Yes, sir.

Senator REED. Let me put one further question to you. Suppose your bank was examined twice as often as it is now by a bank examiner located in that district and thus enabled, by experience, to pass upon credits, as you have said, and know something of the character of the borrower. Suppose, in addition to that, there was a special agent of the Government, who visited there once a year or oftener if he desired, to check up this bank examiner to see that there was no possible connivance between him and the bank, would that not be a pretty safe system?

Mr. FOOTE. I think so. I believe, however, instead of having the banks examined twice as often, it would be better to have the present number of examinations and let them devote twice as much time to each examination. If they examined twice as often the routine work would take up the time, whereas, if they visited the bank the present number of times, and devoted twice the number of days, they could get through with the routine work, the clerical work, checking up the bank, and would have this other time to make invetigations and inquiries.

Senator HITCHCOCK. Would it not be quite possible, Mr. Foote, to have additional examinations depend on the importunity of the bank to borrow money of the Government; that is, twice the number of examinations would only be necessary in case the bank was a constant applicant for funds?

Mr. FOOTE. I think a bank that was borrowing actively would require——

Senator HITCHCOCK (interposing). More examinations?

Mr. FOOTE. More examinations; yes.

Senator WEEKS. Is there not a vast difference between the principle involved in those two functions? The examiner who examines a bank and checks up the bank's books to see whether the books are all right will have an accurate knowledge of the bank's affairs. That is his first purpose. Now, his second purpose, to look into the quality of the paper, is simply a test of the management of the bank and its capacity to manage that part of the business wisely. The Government wants to insure, as far as possible, that banks are honestly managed. Do you think that, on the whole, the Government should be interested in protecting the public against the lack of wisdom displayed by managers of banks?

Mr. FOOTE. I think so.

Senator REED. Otherwise the bank's books might be all right and the notes actually there, but the notes might be worthless.

Mr. FOOTE. I think most of the trouble of the banks comes through incapacity. I think most of the bad situations have their commencement——

Senator REED (interposing). You spoke a little while ago of the circumstance that you probably would borrow within the next 30 days. I take it that is because of the crop movements and you will have large demands made upon you?

Mr. FOOTE. Yes, sir.

Senator REED. Now, are you able, ordinarily, to anticipate a demand of that kind 30, 40, or 50 days in advance?

Mr. FOOTE. Yes, sir.

Senator REED. So that if you had a Government agency at Mobile or New Orleans, and you could anticipate that you would desire to borrow 30 or 60 days in advance, you could make your application and the Government could look you up, if it wanted to, and still you would get your money in time?

Mr. FOOTE. Well, we usually have that much notice, but sometimes we do not have to borrow. We had an unexpected increase in our deposits a short time ago, and we did not have to borrow, whereas we thought we would be borrowing 30 days ago. I think it very important that it should be arranged so that this money could be obtained quickly. We can send our notes to New York and draw against the New York banks the same day.

Senator MCLEAN. What percentage of your paper would be eligible for rediscount under section 14 of this bill?

Senator O'GORMAN. Paper maturing in 90 days.

Mr. FOOTE. We rarely have in our bank more than $250,000 of paper that we consider commercial paper.

Senator O'GORMAN. What is the average period of the notes?

Mr. FOOTE. The commercial paper usually runs from 90 days to four months.

Senator McLEAN. Under this proposed bill a regional bank could only discount for a member bank paper maturing within 90 days.

Mr. FOOTE. We make very few loans running less than 90 days. The general rule is four months.

Senator NELSON. What is the length of your other loans?

Mr. FOOTE. The average loan is made for four months.

Senator NELSON. I mean to your farmers and merchants, outside of commercial loans.

Mr. FOOTE. Usually for four months, and the paper is renewed. We had a $5,000 loan we carried for 14 years, and renewed it continuously.

Senator O'GORMAN. At periods of four months each?

Mr. FOOTE. At periods of four months; yes. That firm liquidated and paid up, but we had that $5,000 loan running 14 years. It was the biggest firm that borrowed money in our town. They made a good deal of money. It was always good paper. There was a time when they could not have paid it, but that particular loan we carried 14 years.

Senator O'GORMAN. At what rate of interest?

Mr. FOOTE. Eight per cent.

Senator REED. That was mighty good banking business?

Mr. FOOTE. Yes; it was the biggest account we had.

Senator REED. And about the safest?

Mr. FOOTE. Yes.

Senator REED. That is almost ideal business, is it not; a customer always able to pay, but carrying a certain amount of loans?

Senator BRISTOW. And having a good account at the same time?

Mr. FOOTE. Yes; that is the way nearly all the business of the country is done. If we make a loan for four months we do not expect to get the money and the borrower does not expect to pay it.

Senator McLEAN. You do not carry very much paper that would be eligible under this 90-day limit?

Mr. FOOTE. We have a very small percentage of our paper that we could collect at maturity without making a lot of trouble.

Senator McLEAN. Do you handle a considerable amount of accommodation paper?

Mr. FOOTE. Commercial paper?

Senator McLEAN. No; accommodation paper. A man gives you his note and you give him a credit rather than give his note to the merchant?

Mr. FOOTE. There is a good deal of borrowing that way, but it is usually small loans, as in a case where a farmer would borrow, say, $300.

Farmers' loans are usually small. You take the average man borrowing $5,000 in our country. He is a man abundantly able to pay that money if he has to do it, but he does not expect to pay it, he does not make any preparations to pay it, and is not prepared to pay it unless you give him notice, and the result is a continuous practice of renewing nearly all the country loans.

Senator McLEAN. Would you then be in a position to get currency under this new system from the central reserve bank unless you changed materially the character of your paper?

Mr. FOOTE. We felt we would have to depend principally on our correspondents.

Senator REED. Just as you do now?

Mr. FOOTE. Yes. We felt that we would have to continue to carry these accounts and borrow from our correspondents, just as we do now.

Senator O'GORMAN. How long have you been in the banking business?

Mr. FOOTE. Since 1888. I moved to Hattiesburg in 1895.

Senator O'GORMAN. Have you examined this pending bill?

Mr. FOOTE. Yes.

Senator O'GORMAN. Do you think it will be an improvement on existing banking and currency conditions?

Mr. FOOTE. I think if it could be changed in some respects it would.

Senator O'GORMAN. In what respects?

Mr. FOOTE. I think this exchange feature would ruin us.

Senator O'GORMAN. That would not work an improvement?

Mr. FOOTE. We would rather liquidate our bank and discontinue business if we had to give up 6 per cent of our earnings. In our country we lose quite a good deal of money. We do not have the strong people that there are in other sections of the country, and it is necessary for banks to make good profits in the South, and if we were going along on a maximum earning capacity of about 8 per cent the business would not be safe.

Senator O'GORMAN. I am asking you what, in this new plan is, in your judgment, an improvement over the existing banking and currency conditions?

Mr. FOOTE. I think the idea of being able to get money in times of distress is the proper idea.

Senator O'GORMAN. You know you can do it now under the emergency act—the Aldrich-Vreeland emergency act?

Mr. FOOTE. Yes; but the Aldrich-Vreeland Act is so strictly an emergency proposition that it would be almost discouraging for them to try to avail themselves of it.

Senator O'GORMAN. There is no crisis now?

Mr. FOOTE. No, sir.

Senator O'GORMAN. Has not the Secretary of the Treasury, under that act, within the last few months, sent money throughout the country?

Senator SHAFROTH. Not under that act. The general revenue of the Government—he offered to send $50,000,000.

Senator NELSON. Only half of it has been taken.

Senator REED. Just as soon as the Treasury Department signified its willingness to help it improved the situation so that the banks in the East felt warranted in advancing money, and there was only half of it taken.

Suppose, however, that the law was fixed in such a way that banks could get money issued to them or loaned to them—not necessarily issued to them, but loaned to them—moneys that the Government has—could it more easily get it under circumstances that did not imply that there was a panic on? That is what you really want?

Mr. FOOTE. That is all we want. We do not need anything more.

Senator REED. Let me ask you what is the real effect and real trouble in the banking system? What do we need to make it a system that will avoid danger by these banks?

Mr. FOOTE. All we need is to be able to get money at certain critical moments.

Senator BRISTOW. Upon your assets?

Mr. FOOTE. Yes; upon our assets.

Senator O'GORMAN. I understand you to say you have never had any difficulty in getting that money from New York?

Mr. FOOTE. We did not have any trouble in borrowing all the money we wanted during the panic from New York and getting all the credits we wanted. We did not get the currency.

Senator REED. If there had been some facility afforded at that time whereby even the New York banks alone could have gone to some source of supply with perfectly good assets and obtained $40,000,000 or $50,000,000, would there have been any necessity for closing the banks of the country?

Mr. FOOTE. Not a bit. The thing that has hurt New York and the country worst has been the system of publishing reports on reserves, showing the margin of reserves to be very narrow; at times showing the banks were below the legal requirements, with the knowledge that they could not get any more money. That makes everybody feel very uneasy. When the New York banks are reported to have a surplus of reserves reduced to, say, $2,000,000, and everybody knows that, it makes everybody feel very nervous. When they are reported as having less than the legal requirements it frightens people, and if it was so that they could replenish their supply of money there would not be any trouble at all.

Senator O'GORMAN. Have the average bankers of your State ever heard anything about a need of making the currency more liquid and mobilizing the reserves?

Mr. FOOTE. We have had all the information that has come through the press in recent months on this subject.

Senator WEEKS. Mr. Foote, do you think the New York banks did the best they could to take care of their customers during the panic of 1907?

Mr. FOOTE. I certainly do; and I feel that we owe them a debt of gratitude which we can never repay. I will never forget the kind treatment they accorded us. We owed one New York bank $145,000, and our balances averaged almost that amount. I was in New York during the panic, and we had $90,000 to our credit and owed them $145,000—all of which was payable on demand. They told us they would loan us more money in the way of credits, but they could not give us cash; but that if we could check on them and satisfy our correspondents they would let us have $100,000 more money.

Senator WEEKS. That was because you kept a good account?

Mr. FOOTE. Yes; that was because we kept a good account.

Senator O'GORMAN. You have a pretty good opinion of the New York bankers?

Mr. FOOTE. Yes, sir; I think they have done the best they could all the time.

Senator O'GORMAN. I agree with you.

Mr. FOOTE. They know more about the banking business of this country than any other class of bankers. You will go to New York and be treated with more consideration by a New York banker than any other class of city bankers we have. He knows more about your

community, more about your assets and your liabilities and what you can do than any other class of men we have. They are more in touch with the situation than any other bankers in this country. I have yet, in the 25 years of my experience, to have any personal knowledge of any unkindness or lack of consideration that a deserving country banker has received at the hands of his New York correspondent.

Senator WEEKS. Was it the amount of your deposits with your New York correspondent in a year?

Mr. FOOTE. With the Chemical National Bank——

Senator WEEKS (interposing). I do not want you to mention the bank; but, roughly, how much do you deposit with your bank in New York in a year?

Mr. FOOTE. I would say the deposits are about $10,000,000.

Senator WEEKS. How much of that is currency?

Mr. FOOTE. None.

Senator WEEKS. Practically nothing?

Mr. FOOTE. We might occasionally make a shipment, but there would not be enough to make it worth while mentioning.

Senator WEEKS. In other words, when you have any currency dealings with your New York correspondent it is always drawing on them for circulation?

Mr. FOOTE. Always.

Senator WEEKS. Did you get any circulation from them during the panic of 1907?

Mr. FOOTE. We got some money; yes.

Senator WEEKS. Do you recall how much you got?

Mr. FOOTE. When the Comptroller of the Currency sent out his telegram suggesting to the banks that they put up bonds and get the unissued currency on hand, saying he would take bonds approved by Massachusetts and other States for savings deposits, we had $20,000 of unused currency with the comptroller. We went to one of the banks and got New York City bonds, and got that currency, and I think we got $30,000 in addition from the New York correspondent.

Senator WEEKS. How would that $30,000 of additional circulation compare with the amount of circulation you had deposited with your New York correspondent?

Mr. FOOTE. We have never put that much cash in.

Senator WEEKS. You were getting more circulation from your New York correspondent than you had deposited with them in a year?

Mr. FOOTE. Oh, yes.

Senator REED. This currency that you obtained by drawing your own currency, this currency you had a right to draw from the Treasury, do you count that as coming from New York or from the Treasury?

Mr. FOOTE. I counted that as coming from the Treasury. We got a total of $50,000 in money.

Senator REED. I understood you to say that the bank in New York said they would let you have $100,000 more, but they could not let you have currency, but they would let you have that amount in credits. Do you mean clearing-house receipts; or what was the character of the credit?

Mr. FOOTE. They would give us credit for $100,000 and we would have to check on it.

Senator REED. They would handle your checks?

Mr. FOOTE. Yes, sir.

Senator REED. Now, if I understand you right, you get all the necessary business accommodations from these banks in ordinary times, and can go and borrow any amount of money that you are entitled to borrow, you do not have any trouble in ordinary times at all, and you do not need any help then?

Mr. FOOTE. Yes.

Senator REED. You are satisfied?

Mr. FOOTE. Yes.

Senator REED. You think the banks in New York—I suppose you would include the banks in New Orleans, St. Louis, and Chicago—are inclined to let you have money in ordinary times upon fair terms, and as a business proposition?

Mr. FOOTE. Yes.

Senator REED. Now, the trouble, and the only trouble, you say, arises from the fact that for one reason or another, or for a multitude of reasons, we sometimes arrive at a point when the bank reserves of the country have become very low, distrust is occasioned by it, people begin to sort of hoard their money in their own vaults—that is, the different banks—and then it is necessary to have some relief from the outside?

Mr. FOOTE. Yes, sir.

Senator REED. That relief, as I understand you, does not need to be furnished to a large number of banks in order to be effective, but if that relief is furnished to a few of the great centers they, in turn, can relieve their correspondents?

Mr. FOOTE. Yes, sir.

Senator REED. Do you think if they will furnish this relief as, for instance, when the Government, in a case of that kind, would carry to New York $50,000,000 and to St. Louis $10,000,000 and to New Orleans $5,000,000, etc.—do you think there would be any disposition on the part of bankers receiving that money to speculate upon it by charging their correspondents heavier rates of interest, or would they treat them fairly?

Mr. FOOTE. I think they would treat them fairly.

Senator REED. You have never seen any disposition to the contrary?

Mr. FOOTE. No, sir.

Senator REED. If you are right about this, the proposition of giving relief would seem to be rather a simple one.

Mr. FOOTE. I think if the New York banks had not gotten into a close place in 1907 we would not have had any panic. I do not think they were altogether responsible for it.

Senator REED. Have you ever studied the question as to whether or not there is an element of danger in the New York banking situation arising from the fact that they loan large sums of money upon industrial stock as collateral, and those stocks fluctuate rapidly in the market, impairing the security? Have you ever given that matter any thought?

Mr. FOOTE. Yes. I think there is an element of danger there.

Senator REED. If there was a limit to the amount that a bank could carry of that kind of loans, on that kind of collateral, would that tend to steady our system?

Mr. FOOTE. I do not know. That is a big question. We became much disturbed a while ago on account of the decline in stocks. They were going down so tremendously and everybody got very unhappy. The banking situation was strong, but the decline in the value of stocks made everybody very unhappy, and we came very near having a bad situation. I heard some people make the remark to the effect that the stock market had no bottom, that there was no telling how much lower they would get, and they might get to the point where security on loans would be impaired. There was a good deal of that kind of talk, and whether or not there would be a recommendation limiting the amount of money a bank could loan on these securities I do not feel prepared to say.

Senator REED. You think that is an element of danger?

Mr. FOOTE. I think so.

Senator REED. And if some plan could be devised that would remove or minimize that element of danger it would somewhat strengthen our banking system?

Mr. FOOTE. I think so.

Senator HOLLIS. The New York reserves, as you understand it, were below the legal limit in 1907?

Mr. FOOTE. Yes, sir.

Senator HOLLIS. And the effect of giving you credit for $100,000 would be to increase their liabilities?

Mr. FOOTE. Yes, sir.

Senator HOLLIS. That would make their reserves still further below the legal limit?

Mr. FOOTE. Yes, sir.

Senator HOLLIS. How do you understand they could give you credit for $100,000 if their reserves were below the limit?

Mr. FOOTE. They did not seem to care anything about that. They seemed intent upon saving the situation. I never was impressed more with anything in my life than I was with the absolute loyalty of the bankers of New York City to the country at large. I do not think they would have cared anything about their reserves if they could have relieved the situation.

Senator HOLLIS. Then the relief they were offering you was at the expense of breaking the law, as you understood it?

Mr. FOOTE. Yes; but the Comptroller of the Currency had said, in substance, that there would not be any complaints made.

Senator HOLLIS. I think they would be very generous if they ran the risk of going to State's prison for the sake of accommodating you. I think we ought to fix it so that they may do it legally. I think that is one of the reasons why we need a new currency, because they have to strain things and give them assurance that they can violate the law with impunity. I did not know but there might be some way to increase your liabilities and not lower your reserve. I am afraid there is not any.

Senator BRISTOW. Has not provision already been made by which they could obtain the currency and relieve the situation without violating the law in the enactment of the Aldrich-Vreeland bill?

Mr. FOOTE. I do not think there are any additional reserve requirements there. I am not altogether familiar with the bill.

Senator Bristow. They could simply organize and go to the Government and get money on their assets to the extent of $500,000,000. The money is down here in the Treasury now.

Mr. Foote. I think any bank is going to hesitate to discount with correspondents or with regional banks. The public opinion is very sharply prejudiced against bank borrowing. We feel very nervous when we are borrowing money. We do not like to make statements showing borrowed money.

Senator O'Gorman. When you have occasion to borrow, who knows it outside of yourselves and the New York banks?

Mr. Foote. Nobody until we publish a statement.

Senator O'Gorman. Is it known in the community?

Mr. Foote. Oh, yes; we have to publish a statement.

Senator O'Gorman. How often?

Mr. Foote. Usually five times a year. We never volunteer to make a statement when we are borrowing money, but the Government calls for a statement.

Senator O'Gorman. It is published where?

Mr. Foote. In the local newspapers. We try to get it inside next to a patent-medicine advertisement, or something of that sort, but your competitors see it, and then your competitors push it along. You can print it up in a corner, but your competitors will take advantage of the publication and push it along.

Senator Bristow. And suggest that you had it in a corner?

Mr. Foote. Yes.

Senator O'Gorman. How about your competitors? Do they not sometimes rediscount?

Mr. Foote. Yes; usually; but there are times when one bank is borrowing and the other is not, and the bankers are in more or less competition. It is not all harmony in the banking business.

Senator Weeks. Let me ask you right there, Is not banking extremely competitive everywhere?

Mr. Foote. Yes, sir; and the margin of profit in banking has been reduced to a minimum. I do not know of any class of people in the world who would do what bankers have to do for the money they make out of it.

Senator O'Gorman. Will you elucidate that last proposition?

Mr. Foote. I think no other class of people in the world would do business on the narrow margins of profit on which bankers do business. For instance, we have $350,000 in our bank which we are loaning, presumably, at 8 per cent. That is $28,000 which the $350,000 produced, until you might say the shareholders themselves contribute that much money. They themselves are providing that much profit, $28,000. We are earning, in addition to that, $21,000 more, which is only a fraction of 1 per cent on our deposits, and during the course of a year we handle about 1,000 transactions a day. We loan during the course of the year about $8,000,000. We make $21,000 a year, you might say, doing it.

Senator O'Gorman. In loaning $8,000,000?

Mr. Foote. Yes, sir; in loaning $8,000,000 and taking the risk.

Senator Weeks. Including the money you make in exchange and all other business?

Mr. FOOTE. Yes. If you will charge our bank for the 8 per cent on its capital stock, profits that the shareholders create, there is just $21,000 left. That is all we make out of the banking business. If you will analyze any bank in the United States by that system, it will be positively astounding how little money there is in the business. If the people generally knew that, there would be very little demand for bank stock. That is a thing bankers do not tell. There is one reason we are worried so much about losing this exchange. It is a very serious proposition. We are on such a narrow margin of profits we can not afford to lose any more.

Senator O'GORMAN. Is your bank one of the large banks in Mississippi?

Mr. FOOTE. Next to the largest.

Senator O'GORMAN. In your State?

Mr. FOOTE. Yes; our bank is next to the largest.

Senator REED. Of course, when a bank runs its deposits up to a very large amount and then when they have not made 1 per cent on the deposits, they still may make a large dividend for their stockholders; but the question of whether they will ever get to that point or not is always a question of bidding for the business?

Mr. FOOTE. Yes, sir; all the banks that are making these big showings are the old banks, with large surplus and undivided profit accounts. If you have a bank making 5 per cent you may be sure it is an old fellow.

Senator O'GORMAN. Hoary with age?

Mr. FOOTE. Well, yes.

Senator NELSON. What proportion of your deposits are demand deposits and what proportion time deposits—in rough figures?

Mr. FOOTE. $450,000 in time deposits, $450,000 savings deposits, and $1,050,000 or $1,075,000 subject to check.

Senator NELSON. Now, do you pay interest on your time deposits?

Mr. FOOTE. We do pay 4 per cent, and also pay 4 per cent on savings deposits.

Senator NELSON. The time deposits run for six months?

Mr. FOOTE. Four months.

Senator NELSON. You pay at the rate of 4 per cent?

Mr. FOOTE. Yes, sir.

Senator HITCHCOCK. We want to hear the other gentlemen of the Mississippi delegation, but there is one member of the Indiana delegation who is obliged to leave the city to-night, and if it is agreeable to the committee, we will hear the gentleman from Indiana at this time. Who is the chairman of the Indiana delegation?

Mr. J. L. MCCULLOCH. I am the chairman of the delegation. We have a committee of five who represent the Indiana Bankers' Association.

Senator HITCHCOCK. Will you state your full name?

Mr. MCCULLOCH. J. L. McCulloch, president of the Marion National Bank, of Marion, Ind. I am chairman of the delegation. If you will allow us at this time, Mr. Chairman, we will put Mr. John P. Frenzel on first. We have prepared a statement to present to the committee, and we want to enlarge a little on the items which we have put in the written statement.

Senator HITCHCOCK. Let the statement be read first. We will hear you now, Mr. Frenzel.

STATEMENT OF JOHN P. FRENZEL, OF INDIANAPOLIS, IND.

Senator HITCHCOCK. Give your full name to the reporter, please.

Mr. FRENZEL. John P. Frenzel, vice president of the Merchants' National Bank, of Indianapolis, Ind. May I say, Mr. Chairman, before I go any further, that we very much appreciate the courtesy of this privilege of appearing before the committee. The statement which we have prepared to present to the committee is as follows:

The Indiana Bankers' Association, at its State convention, held in Indianapolis on September 23, appointed a committee of five to go to Washington and confer with the Committee on Banking and Currency of the United States Senate in regard to the currency bill now pending before Congress.

The Indiana Bankers' Association has 872 banks in its membership, this being all of the banks in the State of Indiana excepting 98. The aforesaid committee, therefore, represents almost every bank in the State of Indiana, and, after very careful investigation and conference among the bankers of the State, feels confident in assuring this committee that practically all of the banks of Indiana are opposed to the currency bill in its present form, because—

First. It should not be made compulsory on national banks to subscribe to the capital stock of the Federal reserve banks under a penalty for not doing so of a forfeiture of their present charters, acquired and entered upon in good faith, with the implied understanding, at least, that these would run for the full 20 years.

Second. Banks should have a fair representation on the Federal reserve board.

Third. Twelve Federal reserve banks are too many, and upon this provision in the bill we beg to submit for your consideration the position taken by all the banks of the Indianapolis Clearing House Association, as stated in the words following, and which is fully indorsed by the banks that we represent, viz:

Twelve Federal reserve banks are too many. The centralization of reserves obviously would be much more effective if there were 3 or 4 or 5. And, so far as we can see, no considerations relating to other aspects of the subject require the larger number, particularly as the bill provides for the establishment of branches by the Federal reserve banks. The Federal reserve board is given power to make all investigation necessary to the selection by it of the reserve cities. Why not leave to it also the determination of the number of regional banks?

Fourth. The dividend on the stock in the Federal reserve banks should be 6 per cent annually and be cumulative instead of 5 per cent, as now proposed in the bill.

Fifth. That the clause in regard to savings departments should be changed so that the national banks may, subsequent to the date when the pending bill shall become a law, make application to the Comptroller of the Currency for permission to open a savings department.

Mr. FRENZEL. This statement is signed by J. L. McCulloch, Francis J. Dietz, Thomas R. Paxton, J. P. Frenzel, and Charles M. McCulloch, the members of the committee representing the Indiana Bankers' Association.

The members of the committee have been authorized by the Indiana State Bankers' Association to appear before this committee of the Senate and present our views in regard to this bill. Last week we had a convention of the Indiana Bankers' Association, in Indianapolis, and we had the largest attendance of any convention ever held in the State.

Senator HITCHCOCK. That association is composed of State as well as national banks?

Mr. FRENZEL. Yes; it is composed of State banks as well as national banks and trust companies and savings banks.

Senator O'GORMAN. How many banks were represented?

Mr. FRENZEL. Over 700.

Senator O'GORMAN. Out of a membership of over 800?

Mr. FRENZEL. Out of a membership of 872 there were 700 in attendance, and we come fresh from an expression of what we believe to be the sentiment of the bankers of Indiana.

The first item we have to present to you is a statement that the Indiana banks believe that it should not be made compulsory on national banks to subscribe to the capital stock of the Federal reserve banks.

Senator NELSON. How is that?

Mr. FRENZEL. That national banks believe, and they are joined in this by their competitors and colleagues, the State banks, that it should not be made compulsory upon them to take this stock and impose this penalty, as has been said here, with a forfeiture of their national-bank charter if they do not do it. We do not believe that is right. We believe that every bank which got its charter from the Comptroller of the Currency, either as a primary proposition or as a renewal of an expired charter, had the idea, and very properly so, that they were getting a charter to run 20 years, and they believe it is a violation and abrogation of an implied contract, at least, where only one of the contracting parties exercises the power, and the other one is not asked whether he likes it or not. We do not believe that is right.

Banks should have a fair representation on the Federal reserve board. That is regarded by all of them a common sense, fair business proposition. If they are to furnish the money that composes the capital of these regional reserve banks, they are entitled primarily, without any other consideration, to have representation on a board that governs the fate of that investment.

Capital as they understand it and as it is contemplated in this bill is made the very foundation, the first requisite. All the language of the other sections of this bill amounts to nothing until you have that settled, as we look at it. The capital that that bank has to have to command confidence enough in respect to it to get the business that it contemplates getting and be in a position to furnish the benefits that it is intended by this bill they shall furnish is the important thing. It is capital primarily that is to be first affected by the management and conduct of this concern, and the contributors to this capital think it is simply an act of fairness that they have potential representation on a board that is to permanently manage the affairs of this bank. Twelve Federal reserve banks are too many.

Senator NELSON. Would not one be better?

Mr. FRENZEL. Yes; it would, in my opinion.

Senator NELSON. Would not one be best of all?

Mr. FRENZEL. Yes; in my opinion.

It seems to me that there is a recognition here of the power of centralization in naming the number 12 instead of 50—that might be called exaggeration; perhaps I should say 12 instead of 20. But, as we see it, when you make 12 units all over the country you are going to get 12 institutions that are very likely not going to be in such close harmony and touch with each other that they will readily and intelligently understand the needs of every other one of their fellow regional banks, and therefore fall in with what this bill is trying to accomplish—uniformity of rates all over the country, with

a difference, perhaps, of only the cost of exchange between one place and another.

Again, it will not be in such a workable condition, because it will take so much time to get around to a certain place before they can respond to the emergency that calls for additional circulation. We feel that by the time that gets around to one of these places that has only a sort of formal acquaintance with us and is acted upon the emergency will be gone.

Nothing, it seems to me, makes a banker more forceful in a community than to get into personal touch with all of the agencies, with all of the interests, and to understand their various wants, and thus be able to respond quickly and promptly to the calls made upon him.

That same sort of thing relates to the enlargement of that idea. The banks in New York, very properly and logically, understand the value and security in stocks and bonds that are admitted to the New York Stock Exchange. If there were no other reason than the fact that that is where the great majority of that business concentrates, that would be enough to prove that they understand more about that and are more in touch with that than the bank in St. Louis whose business principally is, besides the regular local business, advances on grain to elevators, and on pork in warehouses, and on mules in the corrals, and on cotton—bills from their customers in the South. Therefore, if I go to New York for an accommodation, it is quite natural that if I present to them something that they are familiar with I will get more prompt returns than if I go with something they are not so familiar with, or only familiar with at long range.

The difficulty we now have, to illustrate it in a homely way, is that every tub is standing on its own bottom, and that there is no homogeneity, no relationship of community of interest in all the banks.

Senator O'Gorman. Can you change that condition, Mr. Frenzel?

Mr. Frenzel. Yes; I think you can. I think, too, a mistake is made in the contemplation of some of the things that happened in 1907—that New York had all the money, and it was because they would not let the money go that the trouble happened in the country. We had more money in Indianapolis, proportional to the liability, than they had in New York City.

Senator O'Gorman. If you had more money in Indianapolis in proportion to the liability than they had in New York—and we have heard from other witnesses during the last week or two that that wase quite general—why do you say that New York had all the money when, as a matter of fact, she did not have all the money?

Mr. Frenzel. I do not say that. I say that is the prevailing opinion, which, I believe, is a mistake, an absolute mistake.

When our clearing-house committee, of which I had the honor of being a member, got together, we sat for seven weeks. I think the Knickerbocker closed down on Friday or Saturday. Saturday night we had a meeting, and Sunday afternoon we started in on the organization of this clearing-house committee, and on Monday morning it was in operation. The first thing we did we said that every bank or trust company that belonged to this association should show just how much liquid means they had. We had upward of $5,600,000 of liquid means.

Senator Hitchcock. That was in Indianapolis?

Mr. FRENZEL. Yes, sir.

Senator REED. What do you mean by the expression "liquid means?"

Mr. FRENZEL. National-bank notes, gold, and greenbacks. I mean money. What I mean to say is that we had the circulating medium.

Senator REED. You had the cash?

Mr. FRENZEL. We had the cash.

Senator REED. You know the word "liquid," as used before this committee in these hearings, has come to have very many meanings. There seems to be a difference in the way it is used by different persons.

Mr. FRENZEL. There is a difference, too. I am speaking of actual cash.

Now, you know, there were several things considered as to restrictions to be put on this, that, or the other to keep the people from running wild, in one way, and to keep the banks from losing all of their cash by reason of that, in another way. The thing we resolved to do because of that condition, which, we thought, was a very good plan, was to keep on paying the pay rolls in cash.

But that is not the thing I wanted to illustrate and which seems very important to my mind—the consideration of the matter of reserves, of liquid currency, in 1907. After we got through with the seven weeks and wound up the last day the reports showed—reports came in every day as to how much cash they had in these banks—that they had $5,800,000, not balances in New York, but cash. They had $5,600,000 when they started and were scared to death. They got through with the scare and found they had $200,000 more than they started with.

Senator REED. How did you transact business in that interval; with clearing-house receipts?

Mr. FRENZEL. As between the banks, with clearing-house receipts.

Senator REED. As between you and the public—the depositors?

Mr. FRENZEL. As between us and the public, we limited them in the amount of money which they could withdraw. And, by the way, gentlemen, do not think that was a new thing at all. It was done in 1873.

Senator SHAFROTH. What limits did you impose?

Mr. FRENZEL. $50 a pay. You could come in every day and get $50.

Senator MCLEAN. $50 to meet the pay rolls?

Mr. FRENZEL. The pay rolls were paid in cash. You know that is one question that comes up.

Senator SHAFROTH. And generally in amounts less than $50, were they not?

Mr. FRENZEL. Oh, no; in amounts very much larger. I can tell you of one pay roll we had there that was about $11,000.

Senator SHAFROTH. Yes; but if it had not been paid in cash, checks would have gone into the hands of these employees, and they would have been for items of about $50 or less.

Senator NELSON. They were not paid in checks, I understand.

Mr. FRENZEL. No; in cash.

Senator SHAFROTH. But they could have given checks, and those employees could have drawn money from the banks?

Senator HITCHCOCK. When you speak of a $50 limit, you mean that a man having a deposit account with one of your banks was only permitted to withdraw actually what he would need for operating expenses, which you fixed at $50?

Mr. FRENZEL. Yes.

Senator REED. Did you take care of the man's checks in the meantime?

Mr. FRENZEL. Yes; he could check as freely as he wanted to in the payment of his liabilities, and, the checks coming through the clearing house, whatever balances resulted because of the clearings of each day, were settled between the banks in clearing-house certificates.

Senator HITCHCOCK. And they largely offset each other?

Mr. FRENZEL. They largely offset each other. We did this also: The banks, in order to supply themselves with clearing-house certificates that somebody else might be willing to accept for credit, were permitted to go to this committee and get clearing-house certificates based upon securities approved by this committee.

Senator HITCHCOCK. By your arbitrary action for the benefit of the community you somewhat inflated the currency or the credit of the community for the time being, keeping the cash in the vaults of the bank?

Mr. FRENZEL. Yes; the figures show we did that. In some other communities they went even further than that. They used these clearing-house certificates for currency in daily transactions in payment of labor. But we did not go quite that far.

If there had not been any danger, any fear, that something would happen; if there had not been this system of every tub standing on its own bottom, there would have been no reason at all why a good part of that surplus in Indianapolis should not have gone out for purposes of daily transactions; because the real resources required under the national banking act—I am giving now only approximate figures—were about $2,500,000, so there was $3,000,000 surplus.

Senator HITCHCOCK. What amount of clearing-house certificates could you issue at any time during those seven weeks?

Mr. FRENZEL. I am sorry I can not tell you the exact amount, but I think it ran up as high as half a million.

Senator HITCHCOCK. Were there cashiers' checks and other evidences of credit outstanding to add to that?

Mr. FRENZEL. Of course, we did not keep an account; each bank kept an account of its own, and those things were probably liquidated daily or at periods of two or three days—the time it would take to get them back into the bank that gave them out.

Senator REED. What was the capital of your clearing-house bank?

Mr. FRENZEL. I can not give you that.

Senator REED. Approximately will do very well.

Mr. FRENZEL. Approximately, I should say $12,000,000.

Senator REED. With an inflation, we will call it, from the clearing-house certificates, using that term in that way, of only a half million dollars, you were able to pull through and weather the storm?

Mr. FRENZEL. Yes; and, as the results show, we did not need that.

Senator REED. So that, if you had had a place where you could have gone to get a half million dollars of currency—which would have been about one twenty-fourth of the banking capital of the

town—you would have got through without even issuing a clearing-house certificate that went into circulation?

Mr. FRENZEL. Yes.

Senator REED. You did not need very much help?

Mr. FRENZEL. We did not need any help at all.

Senator REED. Well, while you did not need it, if there had been the opportunity afforded to places that perhaps did need it to obtain help, which would have been only a small per centum of their aggregate bank account, just that little additional help would have tided affairs over?

Mr. FRENZEL. Exactly; and that comes down, it seems to me, to what I am trying to make plain to you, Senator. If there had been that sort of relationship of community of interest and personal touch with and understanding of the needs of communities and the kind of security they afforded, then this money might have been not only enough for us, but what surplus we had might have helped out other communities.

Senator REED. Suppose there had been a subtreasury of the United States at Indianapolis with a competent local man appointed there, and he had the advice also of the bank examiner of that district, and there had been a law by which your clearing-house association could have gone there with a guaranty signed by all the banks for $1,000,000, and carried their good assets also, that would have relieved you instantly, would it not?

Mr. FRENZEL. It would depend altogether on how he regarded those assets, or his ability to understand, in harmony with our understanding, what should be considered good assets.

Senator REED. I mean that unquestionably the guaranty of your banks, representing $12,000,000 of good capital, and, in addition to that, your taking there $1,000,000 worth of good assets selected from those banks—that would make the Government mighty secure, would it not?

Mr. FRENZEL. Yes.

Senator REED. Suppose you could have carried that right over to the subtreasury and got $1,000,000 in currency of the United States—legal tender for all debts public and private—and could have taken it into your vaults, you would have been out of trouble in a few minutes?

Mr. FRENZEL. Yes.

Senator REED. And that would not have required any community of interest of the banks or anything else except that your local voluntary clearing house would have cooperated each bank with the other to get it.

Mr. FRENZEL. Do you know, Senator, that in making that proposition you are contemplating a central bank with branches? You are taking your Treasury here, with your subtreasuries off here, and the Secretary of the Treasury is in harmony, through his bank examiners, with every part of the country. That contemplates a central bank with branches.

Senator REED. I understand; but the only difference in the proposition I put to you is that the central institution—whether we call it a bank or the treasury of the United States or a subtreasury—is entirely a Government concern; and, without discussing the merits

of the question whether the Government ought to go into the banking business, I am simply asking the question whether, if your banks in that emergency had been able to go direct to the Treasury, they could not have carried to the subtreasury absolute and unquestioned securities and made the Government safe, and whether that small relief I have suggested would not have carried you through.

Mr. FRENZEL. Yes. And if the certainty of that sort of relief had been understood and unquestioned throughout the country there would not have been any necessity for clearing-house committees to get together and pass these resolutions. That is what this bill is contemplating. The point I am trying to make is that through so many banks you will not have that closeness of personal touch and knowledge which will make their action, either in relieving a situation or otherwise, harmonious.

Senator HITCHCOCK. I shall have to interrupt the witness here to inquire the pleasure of the committee as to a recess. The Senate meets at 12 o'clock.

Senator O'GORMAN. I move that we take a recess until 2 o'clock. Do you think we will be detained longer?

Senator REED. I suggest, as an amendment, that we adjourn until 2 o'clock, but do not reconvene in any event until 30 minutes after the Senate adjourns.

Senator O'GORMAN. I accept that.

(Thereupon, at 12 o'clock m., a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Mr. Moehlenpah, we will hear you now. I would like to ask that you make a brief statement in regard to your affiliations with the bankers, what your positon is, and whether you have had any connection with the State Bankers' Association of Wisconsin, so that the stenographer will have it for the record.

STATEMENT OF H. A. MOEHLENPAH, PRESIDENT OF THE WISCONSIN BANKERS' ASSOCIATION, OF CLINTON, WIS.

Mr. MOEHLENPAH. Senators, I wish to thank you for this courtesy and to say that personally I feel justified in coming before this committee. I represent the Wisconsin Bankers' Association, as president, but do not wish to be understood as representing them individually in their ideas at this time, because I have had no way of polling the bankers of my State. Secondly, I wish to say that I come from a country district, a town of 1,000 inhabitants.

Senator NELSON. What s the name of the place?

Mr. MOEHLENPAH. Clinton, in Rock County.

Senator NELSON. It is near my old home.

Mr. MOEHLENPAH. It is an agricultural State and I represent an agricultural community. I believe it is fair to say that I represent a typical country bank in such a community and, in representing such a community, I represent our State in its entirety as far as the constituency is concerned.

It is a dairy district, it is an intensive farming district, 75 miles from Chicago. Land values are high and increasing rapidly. The

farmers are up to date, progressive, enterprising, and I think are fairly well posted on this bill in its fundamentals.

I think that will accurately state what kind of a bank and what kind of a community I come from. The bank I represent is capitalized at $50,000 and does business entirely with farmers.

Senator NELSON. Is it a national bank?

Mr. MOEHLENPAH. A State bank. And as I come here to-day, I think I can say I have tried to fix my mind all the time during these 25 years of banking experience to get the viewpoint of the man on the other side of the counter. What I shall say to-day I think will more clearly, I firmly believe, represent his thought and his feeling on this proposed legislation than it would the banker, primarily. If this bill should go through, as a banker, as a State banker, I should be very glad to cooperate in my bank and contribute to the capital stock of this regional reserve bank on the particular basis that it would stop, I believe, the recurring of panics and humiliation which I, as a banker in that community for 20 years and in another community for 5 years in the earlier period of my experience as a banker have had. I would have recourse, I would have the help that I always felt I needed under our independent banking system.

I wish to state, too, I was a member of the Chicago bankers' conference. I was honored by being a member of that committee appointed at that conference of 12 men. There were 4 men chosen on that committee to represent the clearing houses, 4 to represent the currency commission, and 4 the State bankers' associations. I was chosen on that committee. I went to that conference with the desire, as a citizen, to cooperate as a citizen, to assist in this banking legislation which I had been taught and led to believe all the years of my experience as a young man was needed—taught by the city bankers and the leaders of the banking fraternity. I thought the opportunity was here, and I went there to attend that conference with a deep desire in an humble way and a small way to be of assistance, to represent the Wisconsin bankers. I asked several national bankers to go there with me that I might have their counsel and advice in any position that should come up. I went into that conference in that committee room, and I went into the larger conference with that purpose and desire. There are some men here to-day, I am glad to say, that were there—I did not know they were here, but I am glad to know they are here—from other parts of the country.

The CHAIRMAN. You refer to the gentlemen from Mississippi?

Mr. MOEHLENPAH. From Mississippi. We happened to be with each other, and I think sympathized with each other, as country bankers in what we were up against early at that conference. Mr. Hepburn presided, as you know. He called upon Mr. Forgan to read some resolutions arranged for. As he read the first section of those resolutions it became apparent to us fellows back in the country that we were there for another purpose, and every drop of blood in my system, as a citizen, revolted.

I had gone there to help, to assist, if I could, and the program was arranged and the skids were greased and we were there to participate as they chose—not as we chose. I say this, gentlemen, with reluctance, but I have heard——

The CHAIRMAN. We have those original resolutions proposed by Mr. Forgan in our minutes, so that the committee will be informed what you are speaking of from the record.

Mr. MOEHLENPAH. But, Senator, I desire to get the attitude more than I do the technical part of this proposition before the Senate—the attitude of the country banker and his relation to this thing more than anything else. It is not prejudice, but I could not help if I wished otherwise, speaking earnestly whatever I feel. And I wish to say that coming across the country in a special train——

The CHAIRMAN (interposing). What special train?

Mr. MOEHLENPAH. The bankers' train coming to Boston, where the convention is to be held next week.

Senator HITCHCOCK. Could you not finish this discussion of what happened at Chicago?

Mr. MOEHLENPAH. Yes; but I want to get to you, Senator, if I can, this thought, that the country banker feels deeply grieved, I believe, about the way he has been represented in the past—at that conference and otherwise.

I started to say in my conference with other bankers coming across the country of the Dakotas, Iowa, and Wisconsin, without exception I found that sentiment, that feeling, prevailed.

Because of the natural inertia of the average banker he never is heard, and he never studies deeply these propositions, and he follows willingly or otherwise the leadership of the city banker at the State conventions and the national convention. I will not say he is coerced, but he is led, and that is one reason why I feel justified in speaking in this way to-day.

Now, in this conference we went into the conference room——

The CHAIRMAN (interposing). That is at the Chicago conference, now?

Mr. MOEHLENPAH. At the Chicago conference.

The CHAIRMAN. Where the bankers' convention was being held?

Mr. MOEHLENPAH. Yes; there were 12 men sat around that table. Mr. Forgan presided. We took up the bill, section by section, to make the changes. The first section, when we came to the proposition as to whether the banks should participate—must participate or leave it optional—the first controversy arose. There I discovered the solidity of thought that was shown in the other room, and you men know nothing about [indicating the Mississippi bankers]. I said, "Mr. Forgan, do you think, as a banker, knowing the bankers, that the banker will cooperate and take a share of the stock in this proposition if it is not compulsory?" The answer did not come. I asked the other men, and I stated, "I do not believe, gentlemen, this bill or any bill will be competent unless it is made compulsory."

Senator NELSON. Do you want it compulsory as to all State banks, too?

Mr. MOEHLENPAH. If you can make it so, Senator, it would be the finest thing you could do.

Senator O'GORMAN. You can not make it compulsory as to State banks.

Mr. MOEHLENPAH. I understand that.

Senator O'GORMAN. That suggests this question: Would it be a fair provision to make it compulsory upon the national and optional with

the State banks and trust companies who would come in and get all the advantages of the system?

Mr. MOEHLENPAH. Senator, that is one of the propositions you men, as lawmakers, must meet, because of your limitations under the law.

Senator NELSON. You loan on real estate in your bank, do you not?

Mr. MOEHLENPAH. Yes.

Senator NELSON. You loan on farm mortgages?

Mr. MOEHLENPAH. Yes.

Senator NELSON. You would be willing to come into the system and forfeit that right, and be on a par with the national banks?

Mr. MOEHLENPAH. The national banks loan now on real estate.

Senator NELSON. They have no right to do it.

Mr. MOEHLENPAH. But they do.

Senator NELSON. They do it occasionally in a roundabout way, but they violate the law.

Mr. MOEHLENPAH. They do it generally, Senator.

Senator NELSON. Oh, no; not generally.

Mr. MOEHLENPAH. I am satisfied they do it in a roundabout way.

Senator HOLLIS. They do it in this way, which has never been explained to this committee, I believe: A man comes in and wants to borrow on real estate. The bank says, "We can not loan on real estate, but you give us a note, and then to-morrow you come in and we will take security on the real estate."

That is the way they loan on real estate.

Senator HITCHCOCK. And they also have a mortgage made to a straw man, and he indorses it, and they take it as collateral security.

Mr. MOEHLENPAH. Yes; there is no question about that. I do not think there is any controversy on that.

(At this point there was a call for a quorum of the Senate.)

Senator O'GORMAN. I would suggest, Mr. Chairman—of course, it is necessary to go over there—if it is desirable to have further hearings this afternoon, we might meet in the Judiciary room close to the Senate Chamber.

Senator SHAFROTH. Suppose we do that.

(Thereupon, at 3 o'clock, the committee adjourned to the Judiciary Committee room of the Senate, and the hearing was resumed at 3.15 p. m.)

Mr. MOEHLENPAH. Senators, I would like to again state that I desire to represent only the attitude, the thought, of the country banker, as I think I know them, but I do not wish to enter into any technical discussion as to figures, details of this bill. I am not a public speaker, I am just a country banker. I felt if we ever got a hearing, if we ever had a hearing on this thing, some of us would have to get busy and come here.

Senator O'GORMAN. Didn't you have a hearing before?

Mr. MOEHLENPAH. No, sir. That leads me to say, Senator, at this conference, the committee meeting in Chicago, when we were closing that conference, I turned to Mr. Forgan and Mr. Reynolds, when they were preparing the conference report to take it into the larger conference, and said, "Does this report stop me from taking part or getting my friends to take part on the floor of this conference?" They said it did. I said, "That does not seem fair." I told them that that did not seem fair, that I did not understand the workings

fully of such a conference, and they said that they desired to make a unanimous front; "It is necessary that we do it." He said, "You can bring in a minority report." I thought what that meant, and I said, "I have not the time or the ability to go into that conference and make a minority report, if I wished to." They said, "You had better keep quiet, then, and we will make a unanimous report, and if you have anything to say, you can say it some place else." I presume he meant such a place as this, although I never thought I would have such an opportunity.

We went into that conference; that report was made. I remember this gentleman here from Arkansas. He expressed my feeling, when Mr. Hepburn, with the gavel in his hand, said, "There is no further objection to this section? It stands approved. Section No. 2." This gentleman got up, after they had reached the third or fourth section in the proceedings—he stood up, but I do not think they paid any attention to him, and he says, "God, this steam roller is working fine."

You wanted to know how much we had to say on that bill at that time [the Senator from New York], and I can tell you that is how much we had to say.

Senator O'Gorman. Why did you not insist upon having a hearing?

Mr. Moehlenpah. I will give you a concrete case. When that section was reached——

Senator O'Gorman (interposing). Without wishing to pay you any compliment you impress me as being a man who would have a say.

Mr. Moehlenpah. I tried hard. For instance, when we got to that section, I think it was 4 or 5, the one providing for the division of the profits, a gentleman from Cincinnati—I do not know his name; I understood he was a large banker—stood up and asked to have argument and discussion on that point, as to the division of the profits over and above 5 per cent. Mr. Hepburn proceeded the same way with the gavel: "If there is no further objection." When I stood to my feet, thinking perhaps I might get a chance to say something—at least, I stood up for a moment and asked if we could discuss it a little, and Mr. Hepburn recognized me, unfortunately. I said: "Would it not be wise, Mr. Chairman, if the section relating to the basis upon which these profits should be divided was read first?" "There is no objection. It stands approved."

I was in hopes, Senator, if we could get a discussion at that time we might, at least, get the country bankers in that conference awake to participate in the conference.

Senator Hitchcock. How many country bankers were there?

Mr. Moehlenpah. It is pretty hard to tell. The city bankers had a pretty large majority.

Senator O'Gorman. Was there any revolt between the city bankers and the country bankers?

Mr. Moehlenpah. No; I think it was ignorance, Senator.

Senator O'Gorman. Of which one?

Mr. Moehlenpah. I think it was the country banker. He has not read this bill. He does not understand it in the first place, and, in the second place, he does not get up to speak at the meetings, and he feels he is not competent. As long as the big fellow is on the job

and does the speaking and writes the resolutions, he knows him pretty well in his city office, and so forth and so on, and he lets him do it.

Senator REED. You say this committee went into a room and drew this report?

Mr. MOEHLENPAH. Yes.

Senator REED. And you were one of the committee?

Mr. MOEHLENPAH. Yes.

Senator REED. Now I can see you had a caucus, but did you have any conferees to deal with? [Laughter.]

Mr. MOEHLENPAH. I am not enough——

Senator REED (interposing). We all understand this. We are joking about our own fight.

Mr. MOEHLENPAH. The distinction between a caucus and a conference fight, which you refer to, Senator, I do not consider myself competent to understand or to explain the distinction.

Senator O'GORMAN. The distinction is, if you were stopped in the caucus and stopped in the conference, your rights were invaded twice, to put it mildly. [Laughter.]

Mr. MOEHLENPAH. I can explain the modus operandi of the conference, if you care to listen to it.

The CHAIRMAN. I would like to hear it.

Mr. MOEHLENPAH. When the different sections of the bill were brought up——

The CHAIRMAN (interposing). Were they prepared in advance?

Mr. MOEHLENPAH. Oh, no. They had the original bill before them, and they would write over the line or make changes as they went along. We each held a copy of the bill, and on the side interlined the changes we were proposing to make in the report to this conference. For instance, we came to "note issue," and there was a lot of work to do and a great deal of talking going on between these members of the conference; Mr. Hepburn said, "Now, Mr. Hill"—Mr. Hill, from Connecticut, and some one else whose name I forget—"you go out and fix that section." And when the question would be raised, they said, "You had better go out and bring that in." And I found out, after we got to the second or third or fourth section, that any idea I should have as a banker from the cornfield or back in the country there had no consideration, and about all I could do was to rattle and protest and let it go, hoping I might get some opportunity on the floor, and when I asked for the privilege of debating on this question they told me just what I told you.

The CHAIRMAN. "Without further objection, it is approved"?

Senator O'GORMAN. Did you have any support?

Mr. MOEHLENPAH. It is hard to tell you, Senator, how quick and how rapid this thing worked out there. [Laughter.]

Senator REED. I would like to know the names of the gentlemen, because sometimes we have to have quick action in political caucuses in my State.

Mr. MOEHLENPAH. I should say they would be ideal. [Laughter.]

Senator REED. Now, seriously, and you must not take exception to the committee for having a little fun, because we are going to have a little trouble of our own and that is the thing we are joking about, our own troubles, and not anything you said——

Mr. MOEHLENPAH (interposing). Thank you.

Senator REED. When these big bankers got in there, the big fellows, you found they had things pretty well cut and dried?

Mr. MOEHLENPAH. It looked to me that way. It was very evident.

Senator REED. And you found they were able to run the steam roller over these men that were there asembled, and not only able to do it, but did do it?

Mr. MOEHLENPAH. I do not like that word "steam roller." I rather used it off-hand, but that is what it was, there is no question about it.

Senator REED. Very well. Now, I want to put a question to you and I want you to give it serious thought. These big bankers have large numbers of country banks for their clients or correspondents, do they not?

Mr. MOEHLENPAH. Yes.

Senator REED. Some of them have as many as 1,000, and some perhaps more. Now, suppose we have a bill and there was an election to be held of directors of some institution, would not the same power that prevailed in this convention (where a man who was present had a chance to stand out, at least, and shout his protest), would not that same power, in your opinion, be able to control the election of the directors?

Mr. MOEHLENPAH. Senator, I have thought of that thing as much as any other thing connected with this bill, but I am free to tell you, knowing human nature as I do and the power of money and selfishness of human nature—I am safe and sure when I say this to you, and I have given it serious consideration, that the tendency would be for these men to control that situation absolutely.

Senator REED. Now, let me put another question: Suppose we have proceeded to that point, when you want to elect the directors of a regional bank, the great bankers of that region would probably be able to dominate in that election and that would settle the question of the directorate of that regional bank. Now, do not these bankers of the West and of the South that we call big bankers sustain intimate and close relations with the great money interests of New York City and the East? Now, do not get irritated about it, Senator O'Gorman.

Mr. MOEHLENPAH. It is a long question, but I think I get the drift of it. They, of necessity, must have connection because of their correspondents. That relation is of a broader capacity, very often. They have it in that deposit capacity, and they have it in that other way which I learned in these recent years to respect, and that is that social way.

Senator REED. Social relationship?

Mr. MOEHLENPAH. Social relationship; that is it. It is mighty effective when it comes to bunching up a thing that is desired.

Senator REED. If that is true, and if you have 12 regional banks, and the big bankers run the regional banks, and the big bankers have close and intimate relations with the big monied interests of the East, how long would it be until a few gentlemen who are in control in the great financial centers of the country would be running this whole chain of 12 banks?

Mr. MOEHLENPAH. That is a hard question. I do not think any man could say how long it would be.

Senator REED. Do you not think that inevitably it would follow that a few would largely control them? I do not say absolutely.

Mr. MOEHLENPAH. Senator, I think if the necessity came to control large volumes of money and credit, if that necessity came and they wished to protect their own interests, their larger interests, as against the countryman in the city, they could do it very easily. I can not see any reason why they would not.

Senator O'GORMAN. Do you approve of this proposed plan, of 12 regional banks?

Mr. MOEHLENPAH. I have discused that with a great many bankers and thought about it. That is a hard thing. I do not see how you men, or any company of men, can sit down and say 12 banks would be too many or too little. It is a new proposition. It would seem to me, to work it out from abanker's standpoint, if I were going to work out a thing like that, I would start on a small scale. I would probably start with a smaller number and make provision for a larger structure. I would start with a smaller number and see how it was going to work out. That is the way I would start, but I am not posted on the whole country as you men are, so as to say 12 would be enough.

Senator REED. You have just said this system might get in the control of certain interests.

Mr. MOEHLENPAH. Yes, sir.

Senator REED. Of course, they might have selfish interests to serve, along with patriotic interests.

Mr. MOEHLENPAH. They might have.

Senator REED. How would it suit you if, instead of having to go to that selfish interest, that might find itself in a position adverse to the bankers of your section of the country at some time, you could just take your securities in a time of stress and go down to old Uncle Sam and get help direct?

Mr. MOEHLENPAH. I am very glad you asked that question because that goes right to the point in my desire to express the country banker's attitude. That is what we wish, that we could do that, and that alone.

Senator REED. That is, if you had trouble with New York, either that they could not help you or would not help you (and when I say New York I mean the great money centers)——

Senator O'GORMAN (interposing). When Senator Reed says New York, he means New York, Chicago, St. Louis, or possibly Kansas City.

Senator REED. I think the thing is true of my town in a less degree. Just in the same degree that the town is smaller than New York, the same influences are present. But, coming back to my question, you really prefer, then, some system by which you could go to a disinterested source and get it, so that if you are being dealt with unfairly or if you could not get help, without regard to the fairness of it, from another source, the present source, you could go then to the Government. You would really prefer that?

Mr. MEOHLENPAH. Yes; I think that is the first desired result that the country bankers are looking for, the first desired result under this whole plan or scheme of agitation for legislation. We could take care of ourselves in ordinary times. When it got to the stress

and times we have had, panicy times we have called it, and we have the best collateral we know that could be had in the farming districts of the farmers, we go to the city banker (I refer now to actual experiences back in 1893), and we put our collaterals on the table. "What is that?" "Well, that is a farmer who owns so much, worth so much. There is his note." "Well, that may not be very good." I have suffered humiliation in having that kind of notes discounted as to their value when I knew they were the best to be had. They absolutely would be paid, and there was everything back of them, and I discovered the city banker was used to look at other kinds of security as compared with this kind of securities. I do not know that they were much better, but they were quicker. Ours were less liquid, and his were always liquid, and we were helpless. And while we did get help from our correspondent, it was because we had insisted and insisted and insisted until we got it.

I presume we could get it, but if we were to be placed in the position where we could go to the Government or some great central bank with our paper and have it scrutinized and investigated and then get our help, we would prefer that. Wouldn't you, if you were a banker?

Senator O'Gorman. If you look for help, you look to Chicago generally, do you not?

Mr. Moehlenpah. Yes, sir; or Milwaukee.

Senator O'Gorman. Have they been treating you fairly in Chicago and Milwaukee?

Mr. Moehlenpah. In ordinary times; no, sir. I do not mean to say we were treated unfairly at any time, Senator, but 1893 and 1907 were trying times, and we were all up against it, and I presume the city fellow was, too.

Senator Reed. The banker you went to was having to do the same with you that you had to do with your customers, and he had to be a little more careful and a little more conservative.

Mr. Moehlenpah. We had to conserve our resources and had to watch after every loan, every outgoing dollar, carefully.

Senator Hitchcock. How much of a line of discounts do you require—rediscounts?

Mr. Moehlenpah. Oh, that varies, Senator. I do not know much about the other banks. I could speak for myself. It is always seasonable. I mean by that, at certain seasons of the year. For instance, the farmers in our locality now have a big crop, and are going to market and buying sheep and steers to feed, and they come in and ask for four or five months' accommodation. If that comes in too strong, like it is coming now, and we find our cash is getting low, all we can do is to go to Chicago with that same paper and present it and get help until they sell.

Senator Hitchcock. Taking your experience in the last 10 years, do you require an amount of rediscount greater than your capital?

Mr. Moehlenpah. Greater than our capital? We never have.

Senator Hitchcock. So that if provision was made for you to get rediscount facilities at the subtreasury equal to, say, 75 per cent of your capital on the deposit of adequate security, that would probably meet your needs?

Mr. Moehlenpah. I do not think that would be a safe proposition.

Senator O'Gorman. Why not?

Mr. MOEHLENPAH. Well, because I can imagine in a section like the cotton section of our country, where a large volume of business is done, a $50,000 banker would need $100,000 to meet the needs of his locality to handle their cotton.

Senator HITCHCOCK. This facility of being able to go to the subtreasury would not take the place of any facilities you have now, but would be in addition to all they have at the present time.

Mr. MOEHLENPAH. I see. Now, let me think about that. I think that would cover all the needs I could think of offhand. If I could have 75 per cent, you say, of my capital—get that right at the regional bank—and then might also have an equal opportunity to go to the bank in Chicago or Milwaukee and get other help—I have not any figures to base it on—I should think that would be fairly ample. That would be a valuable asset.

Senator HITCHCOCK. How many months at a time do you think the banks would call upon the subtreasury for such relief? Would it be 60 days, 90 days, or 4 months?

Mr. MOEHLENPAH. I think four months—or five months at the outside. Sometimes loans with us; for instance, the feeders, the farmer sees he has got a good market and he commences to let go. He crowds his feeding for a week or two and runs in quick and gets in capital and pays his note. I should say four months, or five months at the outside.

Senator HITCHCOCK. Take a 60-day advance. How much interest do you think you should pay the Treasury for that currency for 60 days?

Mr. MOEHLENPAH. I do not know why I should pay—I think I should pay the Treasury or the city bank—let me illustrate this way: I get 6 per cent. I never get more than 6 per cent from my customers. If I can go to Chicago and get the money at 5 or 5½, I am making a little on it. I have had to pay 6, I should say, as many times as I have not, in order to take care of my customer—to keep him going.

Senator HITCHCOCK. What would you think, for instance, if you could get it for 4 for 30 days, 4½ if you had it for 60 days, and 5 per cent if you had it for 90 days?

Senator SHAFROTH. You mean per annum?

Senator HITCHCOCK. Yes; at that rate.

Mr. MOEHLENPAH. I think any rate you establish should depend on the money market, the charge for money at that given time.

Senator HITCHCOCK. The ideas is this, that the banks be given a scale——

Mr. MOEHLENPAH (interposing). According to the time.

Senator HITCHCOCK. I do not mean that it would be permanent, but that the loan would be taken out temporarily and put back.

Mr. MOEHLENPAH. Yes. I think, Senator, that would be wise and safe to do.

Senator HITCHCOCK. What season of the year would it be required in Wisconsin?

Mr. MOEHLENPAH. It is the season now.

Senator HITCHCOCK. Now?

Mr. MOEHLENPAH. Yes; in our district.

Senator HITCHCOCK. That is, the advance would begin now?

Mr. MOEHLENPAH. In September and October.

Senator HITCHCOCK. You would be able to pay it back about when?

Mr. MOEHLENPAH. February. February is our great unloading month for feeders in our country. In the cheese country, in talking with the other fellows of the State, it is different. It may be just the reverse—from spring until fall. I am speaking now from what I know about my own section.

Senator O'GORMAN. Do I understand you approve this bill?

Mr. MOEHLENPAH. Senator, I want to say, without taking too much time, two or three things I do not approve of, without making any criticism. I want to give you the attitude of the country bankers. There are 27,000 bankers in this country, and there are some 7,000 of them that are national banks. There are some fifty-odd big banks and some three hundred-odd medium class. We might call them reserve city banks. That other great crowd are the men I am trying to get before you.

Senator SHAFROTH. Did you finish what you had to say or wanted to say on the Chicago conference?

Mr. MOEHLENPAH. I have been interrupted so much that I do not know how much of that conference I have covered. If you care to ask me questions, I would be glad to answer them.

Senator REED. I can tell you where you were. You had the bill before the conference and had the floor once or twice, and each section had been passed.

Mr. MOEHLENPAH. I did not take part in the discussions after that, because it was useless.

Senator O'GORMAN. Did anybody else take part in the discussion, or was there any discussion?

Mr. MOHLENPAH. Oh, yes; it rather summoned up the antagonism in my nature when Mr. Hill, Mr. Wexler, Mr. Forgan and those men proceeded to discuss certain phases of that bill, when they had told me in the committee room I was estopped from discussing it. They were talking principally upon the note issue and the foreign-exchange proposition, which I did not consider myself competent to talk about, but I did feel I would like to talk about the control of this bill.

The CHAIRMAN. How do you think you ought to control it?

Mr. MOEHLENPAH. I want to say that this bank, according to the countryman's viewpoint, wants to be all the time in the control of the Government. We are more willing to take our chances with the Government. We know something about how the comptroller handles a banking situation, and we know something about how the State examiners handle a banking situation in our State. There are very large demands which we understand, and we are willing to submit to them and be subject to them, and we are fearful, as country bankers, to give the central places, where the opportunity is larger for accumulating these large sums of money—to give them any larger powers.

Senator O'GORMAN. You think it would be far better that the bank be controlled by the Government than by a banking institution controlled by private bankers?

Mr. MOEHLENPAH. Yes; I do.

Senator O'GORMAN. And your experience of bankers, possibly, of your own town, has been confined to Milwaukee and Chicago?

Mr. MOEHLENPAH. I have had more to do with those two centers, but I have had a great deal to do with country banks.

The CHAIRMAN. And you are president of the State bankers' association, are you not, of Wisconsin?

Mr. MOEHLENPAH. I am; yes.

Senator HITCHCOCK. Do you keep a balance in New York?

Mr. MOEHLENPAH. Yes.

Senator HITCHCOCK. Do you ever have occasion to rediscount there?

Mr. MOEHLENPAH. No, sir; I could not. I would not go that far. I have never been in that bank. I do not know them, except we keep a small balance there.

Senator HITCHCOCK. What is the purpose of keeping a balance there?

Mr. MOEHLENPAH. Just to handle exchange items. Someone may want to buy a draft for $100 or $200 or $500, and may want it on New York, and we keep a small deposit there so as to accommodate our customers; that is all.

Senator HITCHCOCK. Is that balance counted as part of your reserve?

Mr. MOEHLENPAH. Yes, sir.

Senator HITCHCOCK. You understand under this bill it would not be?

Mr. MOEHLENPAH. We would keep that reserve with the regional reserve bank.

Senator HITCHCOCK. Yes; and what would you do with the New York balance?

Mr. MOEHLENPAH. That brings us down to the question whether we wanted to deal with this bank.

The CHAIRMAN. You could draw a draft on the New York bank.

Mr. MOEHLENPAH. Sure; there is nothing against that.

Senator HITCHCOCK. How could you do that?

Mr. MOEHLENPAH. By keeping another account.

Senator HITCHCOCK. You could not keep part of the reserve in the New York bank.

Mr. MOEHLENPAH. That brings us to a suggestion I would like to make. I do not know just what the Senators' mind would be on that, but it seems to me, from the country banker's standpoint, and from the operation of this bill, that if you could provide for a reserve percentage, say, of 4 per cent, in the vault of the bank, 4 per cent at the regional reserve bank, and the other 4 per cent, or, say, 2 per cent, you would have to keep in your bank or keep with the city correspondent, you would serve two purposes. One would be to bring the country bank in closer touch and relation with the city bank, to get his ordinary accommodation, such as I have referred to before. He would have a deeper and a stronger interest in the country banker, because he would have more elbow room in loanable funds than if he had to keep it all tied up in one place, in the regional reserve bank.

Senator HITCHCOCK. That is a criticism, then, you have of the bill. You do not like the reserve provision?

Mr. MOEHLENPAH. It seems to me it could be worked out along such a line as that, as I have talked with the country bankers as I came across the country. I do not know whether to put it as a

criticism. It is a suggestion that would be a splendid thing to get the cooperation of the country bankers right at the start, and it would seem to me, also, you would neutralize the opposition of the city banker, too, by allowing his country correspondent to keep a little more.

Senator HITCHCOCK. You detract that much from the mobilization of the reserves?

Mr. MOEHLENPAH. Yes, sir; but it seems to me that that must be an open problem as to what that is going to amount to. It ought to be elastic enough so that you could work out assistance, and the best distributor of money to the country banker is the man who is right on the spot. This great crowd of bankers is in direct touch with the best citizenship of the country in every way, and if there is any latitude to be allowed as to the increase of loanable funds and the tightening up of reserve accounts it ought to be on the side of the country banker, because he is the man who is in the closest touch with the citizenship of the country.

Senator O'GORMAN. Are you the president of the Bankers' Association of Wisconsin?

Mr. MOEHLENPAH. I am a State banker, president of the Bankers' Association.

Senator O'GORMAN. Of Wisconsin?

Mr. MOEHLENPAH. Yes.

Senator O'GORMAN. That association is composed of representatives of State banks?

Mr. MOEHLENPAH. Yes, sir; and national banks and trust companies.

Senator O'GORMAN. How long have you been president of that association?

Mr. MOEHLENPAH. I was chosen president of that association in July.

Senator O'GORMAN. Are we to understand that you are reflecting the views of the members of that association?

Mr. MOEHLENPAH. No, sir. I stated at the outset that I did not wish to be so understood. It has not been possible for me or anyone else to poll the members of that association with any degree of accuracy.

Senator O'GORMAN. Have you had a meeting of your State association?

Mr. MOEHLENPAH. No, sir.

Senator O'GORMAN. Why not?

Mr. MOEHLENPAH. How could we?

Senator O'GORMAN. Why not?

Mr. MOEHLENPAH. We have not had occasion to.

Senator O'GORMAN. Is this matter not of sufficient importance for you to get together and consider the proposition to improve our banking and currency system?

Mr. MOEHLENPAH. We have a membership of 800. We have talked the thing over a good deal, and we thought if we could get a copy of the bill every banker could write a letter to his Representative or Senator embracing his views, criticisms, and suggestions of changes, giving their views; and that has been done. That letter asked for criticisms and suggestions from the bankers. We thought that would be a more economical way than to try to call a large meeting.

We had our annual meeting in July, and the traveling expenses and other expenses of such a meeting as you refer to had been considered. We thought the other method would suffice.

Senator HITCHCOCK. How many national banks are there in Wisconsin?

Mr. MOEHLENPAH. About 125, I should say. About 800 banks altogether.

Senator REED. You did send a copy of the bill to each member of the association?

Mr. MOEHLENPAH. A copy was sent to every banker.

Senator REED. Have they made any representations to you?

Mr. MOEHLENPAH. That is up to you, gentlemen. I do not know. They were to report and write letters and criticisms or give suggestions to their Representatives, and what they have done has been done.

I imagine, Senator, knowing the bankers as I do, that very few of them, considering the correspondence we have had on other similar matters of association policies, have written letters. It is very difficult, indeed, to get them to sit down and write a letter discussing such a problem as this. We can get the best results from them, I believe, when we discuss the matter with them while we are traveling in the smoking compartment of a car.

Senator HITCHCOCK. Do you know anything about the comment which was made by Mr. Frame?

Mr. MOEHLENPAH. I know all about it. I was at the meeting in Milwaukee.

Senator HITCHCOCK. Do you know of the circular letter he sent out to the bankers of Wisconsin for the purpose of getting an expression of their sentiments?

Mr. MOEHLENPAH. I know of it.

Senator HITCHCOCK. Do you know the result?

Mr. MOEHLENPAH. I have seen it in the public print. I presume you Senators know the questions which were asked.

Senator O'GORMAN. What were they?

Mr. MOEHLENPAH. I do not remember now. You have it in your records.

Senator O'GORMAN. I thought you might recall them.

Mr. MOEHLENPAH. I can not recall them offhand. I do not wish to enter into a controversy with Mr. Frame, because we agreed upon the general principles in regard to the attitude of country bankers.

Senator O'GORMAN. He has stated in a general way that nearly every banker in his State is against this bill.

Mr. MOEHLENPAH. I think that is incorrect—I mean his statement of it is incorrect. The average banker——

Senator SHAFROTH (interposing). I would like the witness to proceed without interruption, and then when he gets through we can ask him questions.

Mr. MOEHLENPAH. I am not experienced in this kind of thing, but I am in earnest. The average banker, when he said he was opposed to this bill, was opposed to it—I know of one such—on the general ground as he would look at it in a very superficial way, that it does not pay him enough interest. The average banker would say: "I do not want anything to do with that, because it does not pay me enough. Five per cent is not enough." That is, on the surplus.

Another reason is because of his superficial touch with and study of this thing. He picks up a paper and reads what Mr. Forgan and Mr. Hepburn have sent out, and he says, "Mr. Forgan is against this and Mr. Hepburn is against this," and, therefore, he thinks he should be against it. But if you get right down to brass tacks and would take it up with him in a school-teacher fashion and work out with him the details of the bill and the way it would work, he would have a different attitude.

The average banker hates a rediscount and hates a bill payable to appear in his statement. He does not like it in his statement. If he understands it is to be an every-day proposition——

Senator O'GORMAN (interposing). Sanctioned by the Government?

Mr. MOEHLENPAH. Yes; he will cease in a very short time to be afraid of criticisms coming from anyone in his immediate vicinity. That is the stumbling block here with the country banker and the city banker, for that matter, too. He says, "I do not want to go to this bank and borrow money."

Senator REED. You say when you explain this bill to the bankers they get a different view?

Mr. MOEHLENPAH. Oh, yes; when we talk about it.

Senator REED. How much new capital would be added to the banking capital by virtue of this bill, to the banking capital of the country?

Mr. MOEHLENPAH. In Wisconsin?

Senator REED. Yes.

Mr. MOEHLENPAH. I could not state offhand. It seems to me Mr. Frame estimated it would take a contribution from the national banks of Wisconsin of $3,800,000.

Senator REED. How much new banking capital would be added?

Mr. MOEHLENPAH. That represents it.

Senator REED. Your understanding of the bill is that if we organize regional banks, the capital of the regional banks would be in addition to the present banking capital?

Mr. MOEHLENPAH. Yes, sir.

Senator REED. Are you not mistaken about that? Is it not true that the bank simply takes a part of its capital and transfers it over to the other banks?

Mr. MOEHLENPAH. I did not so understand it. I supposed it was out of our own capital.

Senator HITCHCOCK. It simply takes it from you and passes it on to the regional bank.

Mr. MOEHLENPAH. You mean to say if I have $50,000 capital, that I have only the use of $40,000?

Senator HITCHCOCK. You still have a capital of $50,000, but you have only the use of $45,000 of it. It does not add $1 to the banking capital of the United States.

Senator O'GORMAN. The capital of the reserve banks will be made up by contributions from the membership banks, and the capital of the membership banks would be to that extent renewed.

Mr. MOEHLENPAH. Our stockholders would put up $5,000 more, and put it up as a contribution?

The CHAIRMAN. You simply take that out of your ordinary resources. You do not diminish your own capital at all.

Mr. MOEHLENPAH. That is the way I understood it.

Senator HITCHCOCK. Was it your idea that there would be an assessment on your stock to that extent?

Mr. MOEHLENPAH. Practically so.

Senator HITCHCOCK. Oh, no.

Mr. MOEHLENPAH. I thought if we want to we could contribute this stock. Every bank has its surplus funds and undivided profits, and a number of them have contingent funds. Now, they sometimes hide that in a certificate of deposit, or in some other way. Speaking for my own bank, and I know some other bankers who think likewise, we felt if we would take $5,000 or $10,000 from this contingent for the stock in this bank, this new bank, it would go to the credit of our stockholders.

Senator HITCHCOCK. What are you doing with your contingent fund now?

Mr. MOEHLENPAH. We thought it would be just like undivided profits.

Senator HITCHCOCK. But you would not have it to use after you had contributed it to the reserve bank.

Mr. MOEHLENPAH. We would have the indirect use of it.

Senator HITCHCOCK. You would not have the use of it.

Mr. MOEHLENPAH. No; we would not have the use of it.

Senator HITCHCOCK. You did not expect to assess your stockholders?

Mr. MOEHLENPAH. No; I was telling you how we thought we would handle our share of it.

Senator REED. The whole import of my question was whether you understand that when these regional banks were organized that that would represent that much new contribution to the banking capital of the country. I understood you to say that it was your understanding of the bill.

Mr. MOEHLENPAH. Yes; in a very general way.

Senator REED. The fact is that so far as the bill is concerned, that could be capitalized by the various member banks taking a certain amount of their capital and transferring it so that there need not be a single dollar of new capital added. When that was done and the reserve banks created, the total of the banking assets of the country would be indentically the same as they were before, because it would depreciate the capital of the members by the amount they increased it through the organization of the regional bank, so there is no new banking capital added at all.

Mr. MOEHLENPAH. You would not say if I had that money to my credit or in my pocket, and had it there for my own use, if I should choose to take that money out of my pocket and buy the stock of this bank that that added something to the banking capital?

Senator REED. Your illustration fails in this: The illustration must have this, that you have in your bank a certain sum of money belonging to the bank, and it constitutes, therefore, a part of the assets of the bank, and when you take a part of the assets of your bank and acquire stock in the other bank of equal amount, you have not added a dollar to the banking capital.

Mr. MOEHLENPAH. Those assets——

Senator REED (interposing). Bank assets?

Mr. MOEHLENPAH. They are the property of the stockholders of that bank.

Senator REED. They are the property of the bank.

Mr. MOEHLENPAH. You are talking about the value, the thing itself?

Senator REED. Yes; the real thing.

Mr. MOEHLENPAH. Now, you have not.

The CHAIRMAN. You really transfer from assets in one firm to assets in another firm; that is all.

Senator REED. That is what you mean? Your idea had been if we organized 12 regional reserve banks with a capital of $5,000,000, or an aggregate capital of $60,000,000, there would actually be $60,000,000 new capital added to the banking business of the country, whereas the fact is that that $60,000,000 may be all taken from the assets of the banks, so that it is the same money appearing in a different form. I just asked that, because I wondered if you made that explanation to these gentlemen who are ignorant of the bill and to whom you gave some explanation.

Mr. MOEHLENPAH. I do not want to be put in the attitude of being a distributor of knowledge to my fellow bankers on this bill. My idea was to try to tell you how we felt on the fundamentals of the bill.

The CHAIRMAN. Let me ask this question: Are not these reserves which are now kept by the banks capable of being loaned out, because their reserves are put to the extent of 4 or 5 per cent of deposits into a regional reserve bank where they are subject to be loaned out? Does that not add substantially to the banking capital of the country by making available reserves which are now dead?

Mr. MOEHLENPAH. I do not know but what it adds very materially to the strengthening of our loanable ability, in the first place, and, secondly—and that is so important—to the assurance of what we can do at all times for our customers, which we can not do now.

Senator HITCHCOCK. This contingent fund you speak of is idle in your bank now, is it?

Mr. MOEHLENPAH. No; it is idle in this way; let me explain that. Take that contingent fund and hide it in a certificate of deposit, payable to the stockholders of a bank; if we should happen to have a loss, our directors would meet and charge that to the contingent fund the same as an undivided profit.

Senator HITCHCOCK. If it is a certificate of deposit, then you are using it as you do any other deposits?

Mr. MOEHLENPAH. Oh, yes.

Senator HITCHCOCK. And if you take it away from your bank and turn it over to the regional bank you will not have it to lend to your customers, will you?

Mr. MOEHLENPAH. No; that much of it would be taken from us. It would become the capital of another bank. We would have recourse to it if we wanted to loan it, but we would not have the same control of it—yes, we would, too, in a way, so that it does not make a great deal of difference.

Senator HITCHCOCK. I think you ought to go right along now with your statement.

Senator WEEKS. What authority have you under your State law to scatter a part of your assets and not show them in your statement?

Mr. HOEHLENPAH. We have no authority.

Senator WEEKS. You just do it?

Mr. MOEHLENPAUGH. We do it, but the bank's customer knows about it.

Senator WEEKS. And he winks at it?

Senator NELSON. Does your law in Wisconsin require State banks to maintain any reserve?

Mr. MOEHLENPAH. Yes.

Senator NELSON. To what extent?

Mr. MOEHLENPAH. Fifteen.

Senator NELSON. Where do you keep them?

Mr. MOEHLENPAH. That is deposited in our own vaults or with our city correspondents or our private reserve agent.

Senator NELSON. Provided by the State?

Mr. MOEHLENPAH. Yes.

Senator NELSON. So you can keep this 15 per cent either in your own vaults or with reserve agents?

Mr. MOEHLENPAH. Yes.

Senator HITCHCOCK. What do the State bank statements show, as a matter of fact, that the country banks in Wisconsin do keep?

Mr. MOEHLENPAH. I would not answer that offhand.

Senator HITCHCOCK. Can you not recall that?

Mr. MOEHLENPAH. I have seen it stated by men whom I believe are competent to know that it was in the neighborhood of 17½ or 18 per cent.

Senator HITCHCOCK. As a matter of fact, they keep that much reserve, although the law does not call for so much. In what money are you allowed to keep the reserve in your own vaults?

Mr. MOEHLENPAH. With our banks it is optional.

Senator HITCHCOCK. You can keep gold?

Mr. MOEHLENPAH. Oh, yes.

Senator HITCHCOCK. And greenbacks?

Mr. MOEHLENPAH. Yes.

Senator HITCHCOCK. Can you keep national-bank notes?

Mr. MOEHLENPAH. Yes.

Senator HITCHCOCK. Any kind of money?

Mr. MOEHLENPAH. Yes.

The CHAIRMAN. You may continue your statement now, Mr. Moehlenpah.

Mr. MOEHLENPAH. I prepared a statement as I went along, which I thought I might read to you.

I want to say, briefly and conclusively, and finish what I have to say, first, that the country banker—that the control of this bank should be under the control of the Government. I challenge a contradition. Have any country banker come here and get him alone and question him and you will find a very large percentage of them will say that if it is a choice between the control of this new system by the Government over against the bankers, you will get a very large majority of them who will say let the Government keep control of it.

Senator WEEKS. Do you know anybody who is in favor of any other than Government control?

Mr. MOEHLENPAH. At the beginning of our meeting to-day, Senator—I was in that conference in Chicago—and at the beginning of

the meeting here to-day I spoke about the way business was done there. I was a member of that committee that framed those resolutions, and I would say that the opposition to the Government's controlling this bank, and I will say that the strength of the argument for private control from city bankers as expressed by them.

Senator WEEKS. They did not express any such opinion to this committee. They said they thought the banks should have a representative on the reserve board, but they did not even suggest that banks should control the reserve board. I frankly do not know a single person who thinks the Government ought not to control the issuing of circulation and ought not to control the national banking system, whatever form it may take. There may be such, but I do not know of any personally.

Mr. MOEHLENPAH. You surprise me, Senator.

Senator REED. Are you not in error, Senator? Was it not argued here by several men who came here from the Chicago conference that the bankers ought to have a majority of the directors of all the regional banks—of the regional banks, not the reserve board?

Senator SHAFROTH. They wanted to be represented on the reserve board.

Senator WEEKS. They wanted to be represented on the reserve board.

Senator REED. And they wanted a majority of the directors of the regional banks.

Senator WEEKS. Yes.

Senator REED. And they said they preferred a single bank in the country; several of them said they preferred a single bank in the country to 12 banks.

Senator NELSON. The representatives of the conference who were here did not take the stand you have been taking, Mr. Moehlenpah.

Mr. MOEHLENPAH. They took that stand at the conference in Chicago; do you not know that?

Senator WEEKS. It does not show in their report which was made.

Mr. MOEHLENPAH. I do not know as to that report, whether it does or not.

Senator WEEKS. Are you familiar with the report that was made?

Mr. MOEHLENPAH. You were not here early in the afternoon when I explained it.

Senator NELSON. Are you for or against the report? Did you vote against the report?

Mr. MOEHLENPAH. I did, in the conference committee. I did not take the time to go over that. That is why I wanted to come before the committee, to explain my action as a member of that conference committee, and in the larger conference, as a country banker, I felt justified in coming here to tell you how I, as well as other country bankers, felt.

Senator WEEKS. Since you are referring to that, I want to say that I asked Mr. Forgan when he was here if the report which the bankers' committee which was here was making was a unanimous report; if there was any opposition to it, and he said that before the question was put any person present, any delegate present, was asked to stand and state whether he had any objections to the report, and there was no response; and, therefore, he assumed it was a unanimous report.

Mr. MOEHLENPAH. I will just explain again as briefly as I may——

Senator WEEKS (interposing). You need not if you have explained it once. I would not take the time to do it.

Mr. MOEHLENPAH. I objected to many sections. It was a hurried conference. The work was delegated to different members of the committee and they were authorized to write up the changes as they had talked them over and decided, and then at the end of the conference we went to a luncheon prepared in the next room, and I protested against its being called a unanimous report to Mr. Forgan and Mr. Reynolds, and asked if I could not be permitted to discuss it briefly on the floor of the conference. Reynolds asked me not to do it, and he said I might bring in a minority report. I said I did not wish to do that. He said, "We must go to the men at Washington, to the administration, with a solid front, and if you have any objection," he said, "Make it personally." He said, "Let us keep the solid front," and the solid front was kept, clear through the whole program.

Senator REED. They presented a very fine front down here.

Mr. MOEHLENPAH. I did not have any influence with them. On one side of the table was Mr. Wexler, opposite me, and you know those men, and the vigor of their presence and knowledge and experience. The country banker could not have any influence there. I did not, and I say it now, and they know it.

Mr. G. W. ROGERS, of Arkansas. Excuse me, but we did have influence.

Mr. MOEHLENPAH. I want to say right here, as I am trying to represent the attitude of the country bankers, the country bankers must of necessity, because of the inertia and their ignorance, the possibilities of getting together, as over against the ease with which the larger city bankers can get together, have to depend upon you gentlemen here.

Senator NELSON. Suppose you go right on and tell us how this bill in its details will help the country bankers and put them in better shape than they are to-day. We want information. Suppose you tell us that.

Mr. MOEHLENPAH. That would take a long time.

Senator NELSON. Then tell us in a general way; discuss the general principles. You need not go into details.

Senator HITCHCOCK. Could you not take as an instance yourself? How do you think this bill will help your bank? Have you not figured that out?

Mr. MOEHLENPAH. I could take my notes up and in times of stress go to this bank and get assistance, and I would know that I could get it absolutely at any time.

Senator HITCHCOCK. What is there in the bill which leads you to think that?

Mr. MOEHLENPAH. I presumed that was the function of the whole matter.

Senator HITCHCOCK. You think the board of directors are under compulsion to discount your paper?

Mr. MOEHLENPAH. No, sir; but I think they would.

Senator HITCHCOCK. Do you think there ought to be a provision in the bill making it certain that they would discount a reasonable amount of your paper?

Mr. MOEHLENPAH. I do not think that is necessary, but they ought to do so.

Senator HITCHCOCK. Suppose, the way the bill reads now, the directors could refuse you utterly any discount and could discount the whole portfolio of your competitor across the street.

Mr. MOEHLENPAH. That would be unjust if I had just as good stuff as he had.

Senator HITCHCOCK. Do you not think there should be something in the bill for your protection?

Mr. MOEHLENPAH. I took it for granted that that was there.

Senator HITCHCOCK. Did you read the bill?

Mr. MOEHLENPAH. I have read it many times, but I do not just remember the phraseology of that.

Senator HITCHCOCK. Suppose you should go to the reserve bank in which you had placed one-half of your reserve and one-tenth of your capital and they refused you this. What would you do?

Mr. MOEHLENPAH. I would do like every other banker. I would go to the next best fellow.

Senator HITCHCOCK. You could not take your reserve out as you can now. If you go to Milwaukee and they refuse, you can withdraw your business and go to Chicago. If you are in one bank in Chicago and they refuse you, you can go to another bank in Chicago; that is, under the present conditions. What would you do if this bill were passed and you should go to the reserve bank where you have one-half of your reserve locked up and they would say "no" to you?

Mr. MOEHLENPAH. I would have to go—but I have not any city correspondent to speak of.

The CHAIRMAN. I do not think that is a proper statement to go into the record, because he has a city correspondent.

Senator HITCHCOCK. How much of your reserve have you with your city correspondent?

Mr. MOEHLENPAH. That varies.

Senator HITCHCOCK. Suppose you go into the new system and you have 5 per cent of your deposits in your own bank and 5 per cent with your reserve agent. How much have you available that you might have with a city bank correspondent?

Mr. MOEHLENPAH. I would have that 5 per cent. That is a suggestion that I want to bring up here at this time.

The CHAIRMAN. That is a suggestion you did make.

Mr. MOEHLENPAH. Some of the Senators have been coming in since, and that is how the question comes up again. My suggestion, from a country banker's standpoint, would be that you have your stated portion of your reserve in your vault and stated portion in the regional reserve bank, and that the other portion you can have any place, with the reserve bank, with the central reserve bank, or in your vaults. That would give the country banker more latitude, and he seems to be the one most interested. He would have more funds to use in the transaction of his business.

The CHAIRMAN. Take the amount of your present reserve; how much have you on hand now?

Mr. MOEHLENPAH. We carry 18 to 20 per cent.

The CHAIRMAN. If 12 per cent were required under this bill you would still have 8 per cent to carry with your correspondent.

Mr. MOEHLENPAH. Yes, sir.

The CHAIRMAN. That would give you a correspondent to deal with?

Mr. MOEHLENPAH. I understood you were going to compel us to keep 18 per cent with the regional reserve bank.

The CHAIRMAN. Only 12 per cent would be there, and the balance you would keep with your correspondent.

Mr. MOEHLENPAH. Now, you are going to fix the proportion absolutely.

The CHAIRMAN. That is, only 12 per cent out of your 20 per cent.

Mr. MOEHLENPAH. If you are going to fix it absolutely, why not?

The CHAIRMAN. It is not a question of fixing it; it is a question of whether or not you would have 8 per cent with your correspondent outside of this——

Mr. MOEHLENPAH (interposing). We would.

The CHAIRMAN. That is what I am calling your attention to.

Mr. MOEHLENPAH. We would get 2 per cent on it.

The CHAIRMAN. You could move that from one correspondent to another if they did not treat you right.

Mr. MOEHLENPAH. Yes, sir.

The CHAIRMAN. Do you think the management of a reserve bank, under the supervision of the Government, under the management of the Federal reserve board, would refuse to extend you an accommodation that you were justly entitled to?

Mr. MOEHLENPAH. I do not think so. I could not bring my mind to think that they would.

The CHAIRMAN. If they did, could you not appeal to the Federal reserve board against them?

Mr. MOEHLENPAH. I should say yes, and I would.

Senator NELSON. What is the average amount of your loans?

Mr. MOEHLENPAH. About $350,000.

Senator NELSON. What proportion of that consists of real estate loans and mortgages?

Mr. MOEHLENPAH. Just now that is a very small percentage. That is a source of income, so we would get rid of them. We dispose of them.

Senator NELSON. You take those mortgages and sell them?

Mr. MOEHLENPAH. Yes, sir.

Senator NELSON. Do you find any trouble in selling them?

Mr. MOEHLENPAH. No, sir; not in our country.

Senator NELSON. To whom do you sell them?

Mr. MOEHLENPAH. To trustees and banks and individuals. You must understand we are within 75 miles of Chicago.

Senator NELSON. Yes; I know. Do you raise tobacco there?

Mr. MOEHLENPAH. Only a little. In Rock County they raise some, over to the west and north. They are getting out of it now.

Senator NELSON. What is the character of your other paper? You take these farm mortgages and sell them, and you say you have no trouble in selling them. What is the character of your other paper? I mean is it farmer's paper?

Mr. MOEHLENPAH. It is, altogether.

Senator Nelson. What is the usual length of time of the farmer's notes?

Mr. Moehlenpah. I think the longest time on the outside paper is one year. In most cases it is six months.

Senator Nelson. Most of your paper outside of farm mortgages is six months or one year paper?

Mr. Moehlenpah. Six months more than a year, and four months more than six months. Six months seems to meet the needs of the farmers. We have a crop in the fall, and they want accommodations in the spring, and they take it until the fall, making about six months. Our six months' paper will represent pretty close to 75 per cent of what we have, six months and under.

Senator Nelson. That paper would not be paper that you could at that moment discount and get currency on under this plan?

Mr. Moehlenpah. It ought to be fixed so that we can.

Senator Nelson. You would include in this bill, six-months' paper instead of 90-day paper?

Mr. Moehlenpah. I would like to do that. That is a suggestion, not a criticism. You would meet the average needs of the average country banker if you could make that six months, and if you did make it six months it would do no harm.

Senator Hitchcock. At what time in the year would you probably be required to rediscount?

Mr. Moehlenpah. It would be just at this time.

Senator Hitchcock. This paper that you have taken in the spring?

Mr. Moehlenpah. No.

Senator Hitchcock. You take it at this time?

Mr. Moehlenpah. This is the policy in our bank: We loan pretty close to our reserve. When the fall comes and our farmers go to feeding, that is the seasonable paper of our customers. You can call that, as against a farm mortgage, the temporary demand of the customer. He wants to buy his steers and feed them and sell them at the most advantageous time.

Senator Hitchcock. When you go to the reserve bank with your paper you have got to have paper that has not a maturity greater than 90 days?

Mr. Moehlenpah. We would have to adjust ourselves to that.

Senator Hitchcock. Some of your six months' paper would have partly expired and might not be available.

Mr. Moehlenpah. I had thought of that. If you could make it six months, the average country banker would come under the four-month or three-month period and if you did not you would have that anyhow, and you could make it six months without doing any harm.

Senator Hitchcock. How much of the six-month paper is to be paid when it is due?

Mr. Moehlenpah. That paper is always paid, as sure as in any individual bank or business. As soon as the steers are shipped on the market the money is deposited to our credit at the stockyards. We get advice of it.

Senator Hitchcock. It is paid automatically out of the proceeds of the transaction?

Mr. Moehlenpah. Yes, sir; that is the seasonable demand. Outside of such demands we do not have any extraordinary demands. The ordinary country debt or business would care for itself, and I

presume the other country banker handling cotton or tobacco has about the same experience. They have the same situation in Janesville, Senator Nelson.

Senator NELSON. Yes; I know that.

Mr. MOEHLENPAH. Yes.

Senator SHAFROTH. Mr. Moehlenpah, what kind of currency do you think ought to be issued by this bill or by any bill that might be reported? Should it be bank currency or currency issued by the Government itself?

Mr. MOEHLENPAH. I would like to express here, if I can, what I consider the attitude of the farmer, the man on the other side of the counter, who I have sympathy for, and it would not hurt me if he says when you put it up to him he expects the protection and the guarantee of this currency. He says, "Give us the Government note." He speaks in plain words, and he says, "Give us the I O U of Uncle Sam"; they do not stop to discriminate between that and the regional reserve strength, backed by the same guaranty or collateral. They say, "Give us the promise of the Government direct." I can not see any objection to it as a banker. I wrote letters to Mr. Forgan and Mr. Reynolds before I came here, specifically asking them to give me the reasons why the direct issue of currency was not right; why there should be any objection to it, and I have those letters.

Senator SHAFROTH. I will ask whether, in your judgment, the notes that you think should be issued by the Government direct should be full legal tender for the payment of debt?

Mr. MOEHLENPAH. I can not see any reason why they should not be legal tender. I am not an expert as to the ramifications of that point. Speaking offhand I can see no objection why that should not be legal tender.

Senator SHAFROTH. Would you regard a system of currency of a full legal-tender note backed by a gold reserve of 50 per cent, together with the requirement that the Secretary of the Treasury shall maintain that reserve at 50 per cent, and, if necessary, buy gold or sell bonds for the purpose of getting gold—I would like to know whether or not, in your judgment, that would be a good currency?

Mr. MOEHLENPAH. I should think it would be absolutely safe.

Senator SHAFROTH. Would you think it would be much better than a currency issued by the banks?

Mr. MOEHLENPAH. Practically it would be quite so. The same guaranty is back of the reserve bank notes.

Senator SHAFROTH. It has a national bank guarantee.

Mr. MOEHLENPAH. I think the first one is preferable. Why not?

Senator NELSON. Which is preferable?

Mr. MOEHLENPAH. The issue of the Government, with a deposit of 50 per cent in gold maintained at all times.

Senator NELSON. Which system would you like if you had to go up to the counter of the Government and wanted currency and go there with 50 per cent in gold or go there with your notes to get them discounted? How would you like that instead of going up to get new notes, Treasury notes, for your commercial paper, if instead of that, you had to go up there with gold and leave it with Uncle Sam? How would you like that?

Mr. MOEHLENPAH. Am I to be placed in a position where I have to come with gold?

Senator NELSON. Yes; give him a dollar in gold for every $2 in paper, instead of taking up your commercial paper.

Mr. MOEHLENPAH. I do not understand the comparison.

Senator SHAFROTH. I do not think that is a just statement of the bill that I have introduced. The theory upon which I have based the bill which I have introduced—and Senator Owen introduced a bill somewhat similar, except that he has the bond feature in it—is that the gold certificates come into the receipts of the Treasury, the gold to be drawn out of the warehouse room and turned over into a redemption fund, and that a United States note, issued by the Government, payable in gold, shall be issued by the United States Government to take the place of that gold certificate, and that a similar national bank note be retired whenever the banks say they are willing to surrender their circulation. Thus, with a gold reserve of 50 per cent, it will take the place of what may be termed the permanent currency, namely, the national bank notes and the greenbacks, and the gold certificates, having behind it at least a 50 per cent gold reserve.

I will ask you whether, in your judgment, that would be a safe currency.

Mr. MOEHLENPAH. How is that provision for the redemption of bonds?

Senator SHAFROTH. They pay the bonds off by full legal-tender money.

Mr. MOEHLENPAH. Without regard to time?

Senator SHAFROTH. No; they let the banks have the privilege of doing it. The banks do not care for these 2 per cents; they are willing to surrender them, I understand.

Mr. MOEHLENPAH. The question, as I understand it is, you would redeem those bonds and the note issue under them?

Senator SHAFROTH. By payment of cash.

Mr. MOEHLENPAH. Without regard to a time limit?

Senator SHAFROTH. No; just as this money came into the Treasury; automatically, as it was received into the Treasury.

Mr. MOEHLENPAH. Senator, I could not answer that question because I am not informed enough to answer it.

Senator HOLLIS. You suggested that those with whom you had talked preferred a Government note to a bank note. Have you ever heard of an objection to a national-bank note?

Mr. MOEHLENPAH. No, sir.

Senator HOLLIS. Do you think that is due to the fact that there is a Government bond behind it, or for some other reason?

Mr. MOEHLENPAH. Well, I think it is due to the absolute confidence and belief of the citizen or anyone that holds it that it is the I. O. U. of the Government. I have asked lots of men many times; they would take a national-bank note and look at it, and I would ask them if they understood the difference. They would say no; they understood the Government was back of it. They do not stop to think of the process of issue, as to the bond-secured currency. They consider that a Government note; that is, the average man.

Senator HOLLIS. In what cities are your reserve agents located?

Mr. MOEHLENPAH. In Milwaukee, Chicago, and New York.

Senator HOLLIS. Have you ever had any difficulty in obtaining rediscounts when you needed them?

Mr. MOEHLENPAH. In ordinary times, no; extraordinary times, yes.

Senator HOLLIS. When were the extraordinary times?

Mr. MOEHLENPAH. 1893 and 1897; those are the times that I have particular reference to.

Senator HOLLIS. Did you have any difficulty in 1907 in obtaining rediscounts?

Mr. MOEHLENPAH. No; we had to insist; we had to urge—it was, in a way, a humiliation. They did not have to lend to us any more than we would have to lend to a customer. It was about the only place we had to go, and we felt we were entitled to assistance, and we got it eventually, but we felt in 1893 as if we might have to quit business at some stages of the game.

Senator HOLLIS. Do you think that is due to the faults of the system or the faults of your reserve agents?

Mr. MOEHLENPAH. I am constrained to say, Senator, that is due to the fault of the system. I think the city correspondents with whom we have had profitable and pleasant mutual relationships would be glad to accommodate us if they felt they could have the same relief and get it safely.

Senator HOLLIS. In other words, if they were able to obtain assistance they would help those who were doing business with them?

Mr. MOEHLENPAH. I think so.

Senator HOLLIS. Did you have any difficulty in getting circulation in 1907?

Mr. MOEHLENPAH. Well, I am a State banker.

Senator SHAFROTH. That is all, Mr. Moehlenpah, unless you wish to make a statement.

Mr. MOEHLENPAH. I believe we have brought out the main points, unless I might state another very general objection of the country bankers, Senator, is that savings-bank section where you obligate banks to set aside so much capital and to segregate deposits. As I understand it, almost half of the national banks of the country have savings-bank departments now; whether authorized by warrant or otherwise they have them, with eight hundred and odd millions of deposits. The wage earner deposits his savings in the bank and maybe the manufacturer, his employer, comes in and borrows from the same bank. To require the average small country bank to segregate deposits, to keep separate books, and have a separate bank is an unnecessary hardship. It seems to me as if that will do no particular good in that section that I can see.

There are other gentlemen here who are competent to speak on some other details. I have confidence in the Senators and Representatives that when they work out the details they will work out these details satisfactorily, both as regards the reserves and as regards the cashing of checks and the handling of the savings accounts, and all that. I think that is a detail.

But I want to leave with you the firm conviction that I have that the country banker wants this great, powerful institution to be under the control of the Government always and that the Government issue these notes, that you allow reasonable latitude in the matter of rediscounts and the keeping of our reserves. I believe you will have the cooperation not only of national banks but of a large number of

State banks as well and be free from the recurring panics, and be safe and sure that we can move along with our customers in the general and regular expansion of our agricultural and commercial interests. If we feel we can do that I think you can safely trust the average banker to be conservative in his loans. That is human nature. He will move more surely with a program such as you have outlined here in general, and it will be a beneficent influence upon all our country.

During my 25 years as a banker I have looked for this time. I have been led to believe by the banking leaders that you would give us relief and assistance, and I am heartily in sympathy with your efforts, and I have absolute confidence, and the average country banker has absolute confidence, that you are going to do that and that these details will be worked out with safety to the banking interests, having in view the interests of the citizen and the customer. I make a good interest on my investment as a banker, but I understand I get it by grace of the deposits that are given me and I think they are entitled to the first consideration.

Senator SHAFROTH. You do not think the resolutions passed by the Chicago conference of bankers represent the attitude of the country bankers?

Mr. MOEHLENPAH. Not in their entirety; no, sir.

The CHAIRMAN. If there are no further questions we will proceed with another witness.

Mr. MOEHLENPAH. I appreciate, gentlemen, your courtesy.

STATEMENT OF GEORGE W. ROGERS, CASHIER BANK OF COMMERCE, LITTLE ROCK, ARK.

Mr. ROGERS. Mr. Chairman, I am the cashier of the Bank of Commerce of Little Rock, Ark. It is a State institution with a capital stock of $100,000; undivided profits, $250,000. The deposits run from a minimum of $1,300,000 to a maximum of $2,700,000.

In Arkansas, up to the present time, we have had no banking law. The banks operate under the general incorporation act, have no restrictions whatever in regard to loans, and are not required to keep any reserve.

The proposition I desire to discuss is the section of this bill that affects Arkansas bankers. That is the only thing I know anything about and the only thing I feel competent to discuss. There are about 450 banks in Arkansas. Approximately 150 of them are clients of mine. About thirty-odd banks are national banks. We have in our State a usury law which makes the taking of interest in excess of 10 per cent per annum usury and forfeits both the principal and the interest. I am informed by some of the smaller national banks that they take out a charter in order to avoid the usuary law. The penalty for usury against a national bank is forfeiture of the interest only.

In regard to this currency bill I am very much like the man was with his 49 reasons for not wanting to play poker. When he said he did not have any money no one was ever interested in the other 48 reasons. [Laughter.]

Now, in regard to section 17 of this bill, which provides that these Federal reserve banks shall act as clearing houses for country checks,

I am opposed to that. If you pass that section of the bill, I do not care what else you do, you have just ruined me, and it does not make any difference what you do to a man after he is dead.

Senator SHAFROTH. What is that section?

Mr. ROGERS. It is part of section 17, which provides that these Federal reserve banks shall act as clearing houses for country checks, that they shall handle them at par. That question has not been discussed very much. I take issue with my friend from Wisconsin on his statement that the little country bankers do not have any influence in Chicago to compel an unwilling committee to bring in the report we wanted on that line.

That committee was stacked; that was the coldest deal I ever went against in my life. [Laughter.] We were invited there simply and solely to set the stage, to have a crowd, to carry a spear and sing a song and dance around, so that the stage would be full while the bigwigs could have the spot lights played on them. The plot laid out was that they should make their speeches, that the talks would be made, that the chairman appoint a committee on resolutions, and then they took us out and fed us, and the committee was to bring in their resolutions in the afternoon, have them adopted, and they would give us a banquet at night and send us all home drunk and happy. [Laughter.]

Senator HOLLIS. Mr. Rogers, you speak as if you had been in a Democratic senatorial caucus.

Mr. ROGERS. Senators, I was raised in a county that never went Democratic but once. That was Wayne County, N. Y., and that was the reason they said that, being brought up with Republicans I was a Democrat, I was so contrary. [Laughter.]

Senator NELSON. Tell us how you overcame the Philistines at Chicago.

Mr. ROGERS. When Mr. Foote was speaking in favor of a resolution the first day they said to him, "Shut up; get off the floor; we did not come here to bother with you; we are going to put this thing through and go home." The press made the same remarks, "Shut up; go on; let us go home." I said, "Bud, don't be in a hurry, because you are not going to get through to-day; you will be in luck if you get through to-morrow, because if we can not be heard here there is another room in this hotel."

And I talked to them like my friend says his Democratic friends did. I put on a front, and I never did let them know how weak we were. I told them if they did not give us a reasonable opportunity to be heard we would go and have a convention of our own; that if they wanted to throw down the gauntlet for a fight between the 300 large reserve city banks and the 26,700 country banks we were ready. I told them also that some of them were accused of being great men and great financiers, but that for five hours they could employ a lawyer to plead not guilty for them. [Laughter.]

The second morning we started out on our proposition, and the proposition I laid down to them was that I was the friend of the city bankers; that they were my friends; that many of them I had known for years, and that they were going on a proposition where they would cut themselves off from the job; that if they put through this Federal clearing house it would so cut off deposits of the large city banks that they would not have any need for them.

The question is of clearing country checks—not collecting country checks. The matter has never been tried in the United States of collecting country checks. They talk of the Boston Clearing House clearing country checks. It does not clear country checks; it collects country checks. Why, New England you can hold almost in the hollow of your hand. The whole of New England is within a few minutes of the city of Boston. You have trains just like you can catch a street car up here, and riding through the country is like riding down these streets. But with us conditions are different. Time is a great thing in the collection of these checks. In Boston they tell me that a large majority of these checks are collected the following day. St. Louis is our principal center, and St. Louis deducts four days' interest on every Arkansas check, and, I think, five days on Texas checks, because it takes them actually that amount of time to collect those checks.

Now, if you commence to clear country checks it means that the banks will send them there, and the differences will be paid, or the checks will be charged against your account. But the little bank down in southeast Arkansas or southwest Arkansas or southern Arkansas is so situated from a railroad standpoint and in point of time that it is the second or third day before the checks reach there. Then, coming back, it is the second or third day before they get the credit. That would necessitate their having with the Federal reserve bank an amount equal to four or five or six days on the checks that come, which is to be charged against their account. In addition to that they would have to carry their reserve in cash. They would have to have their 18 per cent with the reserve bank; and, instead of having 18 per cent as would be necessary for a central reserve city bank with many banks, it would require in excess of 50 per cent.

Senator SHAFROTH. How would you have the country bank checks cleared, then?

Mr. ROGERS. That is none of the business of the United States Government. It is not a part of any currency system any more than it is the part of the United States Government to make a loan to a nigger on a mule. That is a question between traders.

Senator SHAFROTH. How are they cleared now in your district?

Mr. ROGERS. They are not cleared, they are collected. And there is a wonderful difference between clearing and collecting. If the city bank—for instance, in St. Louis—received checks on Arkansas points they forward them to some bank in that town for collection. They are collected and remitted for, and they are reimbursed in that way. The city banks have approximately 10 per cent of their capital stock tied up in those items in transit. One gentleman stated that that amount now exceeded $1,000,000,000. I do not pretend to state—I have heard the statements of liars and expert witnesses and statisticians questioned too often, so I do not want to present any statistics that I can not vouch for. But, with this amount in the Federal reserve banks, it so takes away the deposit of the city bank that they can not lend you any money when you need it.

In Chicago Mr. Wexler said, "They are going to put it over; this country will never stand for a minute for this tax." I said, "That is right; they ought not to pay the tax. And when I want to mail a letter I ought not to have to put a postage stamp on it either, be-

cause that costs a cent, and when I wanted to come up here to Chicago I went down there to the station and they told me it would cost money. I asked them how much, and they told me; and a nigger standing right behind me asked the same question, and they told him the same thing."

Now, there is no reason in the wide world why the banks should be required to work for the general public and the general good of all without any compensation any more than it is reasonable and just and equitable to ask the railroads to haul passengers or freight absolutely free of charge.

Some of the other gentlemen asked the question whether we would rather get this money from the Federal reserve bank or from an individual bank—an incorporated bank. This is the difference: If you keep an account that justifies you in asking accommodations, you can go to the bank and say, "I want so much money." It may be convenient to him and it may not be convenient to him to let you have it, but if your account justifies the accommodation you get it. Because if he does not let you have it you can walk right across the street and say, "Here is my average balance; here is what I want," and that fellow wants to increase his business and therefore increase his pay. The first fellow, if his liver is not working just right, keeps on that course and loses that much business, and somebody else gets on the job. But you go to a Federal reserve bank. You gentlemen may never have had any experience with Federal employees and how they do business, but I want to tell you how the subtreasury of the United States does business. I have a letter right here in my pocket where I sent $50,000 in gold coin to the Third National bank of St. Louis, Mo., and I wrote them, "If you can not give me credit for $50,000, do not take it." They telephoned back that they did not know how much they could give me credit for, that there was a certain amount of abrasion, and that that would have to be reported on by the subtreasury.

I said, "Throw out the light coins," and they said, "No"; they would not do it. They said, "The people in the subtreasury dump that on the scales, and you can take what they offer you or throw it away." I told them I could not afford to let that $50,000 lie idle, and I said to let it go. And I have a letter here which says they will credit us with that $50,000, and that they will turn it in to the subtreasury when the subtreasury notifies them they can accept it; that they can only deposit gold in the subtreasury at the convenience of the subtreasury, and at the convenience of the subtreasury they will weigh it and tell you how much you are short and you have got it to pay.

Now, gentlemen, as far as I am concerned, I do not want to go to any Federal reserve bank for money. When I want it I want it like the Texan wanted a gun—he wanted it bad and reasonably quick. At the present time you get your money as you need it. You arrange for your accommodations to start on, and when you need it you send along your collateral or your notes as they are indorsed.

Now, one gentleman that sat over there this afternoon asked some questions as to whether 75 per cent of your capital would be sufficient. Down in our country it would not be sufficient. At the present time against a capital stock of $100,000 I have $550,000 borrowed.

I commenced this year to borrow in July, and I will pay in December. Last year I borrowed early in October and paid in November. The large borrowing this year is caused by the rains, which delayed the cotton crop, and the country banks had to be taken care of.

Mr. Foote this morning made some statements in regard to country loans. My loans are very much different from his. They rarely, if ever, are renewed, any of them, to exceed once. Along in September when the cotton commences to move the small country banks make their collections; they pay their loans and increase their balances, and that is the money the cotton man has to handle his cotton on. As the country bank deposits increase and their loans decline this money is used. And as the cotton goes out the country bank deposits commence to go down and they commence to borrow.

In other words, the greater part of my assets are used all the time, either in producing a crop or in moving a crop. Two-thirds of my business is with country banks, and that is the money I use to move the cotton with. In the city of Little Rock we handle between 300,000 and 400,000 bales of cotton a year. There are only three banks that do a cotton business. This country business in Arkansas is mostly done to move the cotton. The same conditions prevail in Pine Bluff, Texarkana, and Fort Smith to a lesser extent.

The conditions in the various parts of the country are wonderfully different. Now, in regard to the amount I stated it would be necessary for these small banks like ours to keep in St. Louis if the clearings were done there, I will give you a few figures. Here are two days' business, taken from my books. The first was October 14, 1912. Cotton was moving and business was active. At the close of business that day we owed depositors of all kinds $1,634,000. The current deposits that day were $753,370. The loans paid that day were $14,028. The exchange sold amounted to $189,900.

On the other side, we bought exchange that day amounting to $465,626. We paid checks amounting to $586,769. We made loans amounting to $27,446.

Now, you gentlemen may not understand how the cotton is moved. The cotton is moved on open account. That sounds better than "overdrafts." The State banks handle cotton brokers' accounts on open account, while the national bankers blind tiger it, with the knowledge and consent of the Comptroller of the Currency. They do that to evade the limitations on loans.

Against my $100,000 of capital I have had single accounts that were overdrawn to the extent of more than $300,000 at a time. With us we consider that the safest and most conservative business that we do.

The cotton documents reach us attached to the checks—that is, the bills of lading for cotton to arrive or the compress tickets. We take them and make a careful record of them, and as the cotton reaches the compress we exchange with the compress their bills of lading for the receipts. We at all times have the insurance on the cotton and at all times have the actual constructive possession of the cotton. As the cotton is sold it is shipped out, the bills of lading are attached, and the drafts are used to liquidate the overdrafts, and we deduct what we consider a reasonable exchange, in addition to the interest charge, for handling the transaction. The national banks, instead of handling it exactly as we do—you take the drafts that are drawn on

the cotton man and have him accept them and you call them bills of exchange, but they are dead when they reach him.

The CHAIRMAN. Have you concluded your statement?

Mr. ROGERS. Yes, sir.

Senator HOLLIS. Mr. Rogers, as I understand it, you want two things?

Mr. ROGERS. Two things, and that is all we ask for.

Senator HOLLIS. First, you want to be left as you are in your collection arrangements?

Mr. ROGERS. Yes, sir.

Senator HOLLIS. And, secondly, you want to have some place where you can go and get accommodations, and get it surely when the business needs of your community require it?

Mr. ROGERS. We want some place where we can keep a reasonable proportion of our reserves, so that they will be under obligations to take care of us when we need it, and some place that will have some deposits they can loan to us.

Senator HOLLIS. Have you in the past had any difficulty in getting rediscounts?

Mr. ROGERS. Never; the banks have been mighty good to me. I never have asked for a thing from a bank that I kept an account with that it was not granted very cheerfully.

Senator O'GORMAN. Where do you usually get your discounts?

Mr. ROGERS. In New York City and St. Louis. I made the statement while you were out that I owed some money right now. I owe $550,000—$250,000 in New York and $300,000 in St. Louis. That is the note of the bank, indorsed by the president and myself.

Senator O'GORMAN. Without any collateral?

Mr. ROGERS. Yes, sir.

Senator WEEKS. I congratulate you on your credit.

Mr. ROGERS. Well, we keep balances to justify the credit.

Senator WEEKS. Of course you do, or you would not get it.

Mr. ROGERS. Or we would not get it.

Senator HOLLIS. Why was not that a perfectly good transaction you described a little while ago?

Mr. ROGERS. I guess, maybe, it is; but it is simply a way of beating the devil around the stump.

Senator HOLLIS. It may be that that is a way of business that is different from what you are accustomed to, but why is not that perfectly safe?

Mr. ROGERS. It is safe, just exactly as long as the bank keeps the collateral. The point I wanted to make was not that it was unsafe, but it was simply a way to evade the 10 per cent loan law; that is all there is to it. It is simply an evasion of that law; and the comptroller's office, knowing the necessity of our part of the country, and knowing the safety of this character of business, just winks at it.

Senator WEEKS. Mr. Rogers, you are a State banker?

Mr. ROGERS. Yes, sir.

Senator WEEKS. Suppose the Senate passes the pending bill just as it came over from the House. Are you going in?

Mr. ROGERS. No, sir.

Senator WEEKS. Why not?

Mr. ROGERS. Because it would not be profitable to me.

Senator O'GORMAN. Have your directors considered that subject? [Laughter.]

Senator Hollis. That is a little like that acceptance.

Mr. ROGERS. Senator, there are two of us own the controlling interest in the bank——

Senator O'GORMAN (interposing). And those two have considered it?

Mr. ROGERS. And those two have decided it. [Laughter.]

STATEMENT OF MR. J. W. BOLTON, PRESIDENT THE RAPIDES BANK, ALEXANDRIA, LA.

The CHAIRMAN. Mr. Bolton, will you explain to the stenographer your address and your banking affiliations?

Mr. BOLTON. I am president of the Rapides Bank, a State banking institution, with a capital of $90,000, and a surplus and undivided profits of $225,000.

Senator O'GORMAN. How long have you been in the banking business?

Mr. BOLTON (continuing). And with average deposits of $1,000,000. The bank is 25 years old, and I have been with the bank 24 years of that time.

Senator NELSON. Is it a national bank?

Mr. BOLTON. It is a State bank. I started with the bank when we only had the president, the cashier, and myself. Ours is the oldest State bank in Louisiana outside the city of New Orleans. It is a bank organized under the State laws.

The required reserve in Louisiana is 25 per cent. At least 8 per cent must be kept in cash in your vaults, and 17 per cent may be kept with your correspondents. You can keep it all in your vaults if you wish, but you must keep 8 per cent and you may keep 17 per cent more with your correspondents. As a matter of fact, when our reserve gets down to 25 per cent, both my father and myself—my father being the first president of the bank and now the chairman of the board of directors, I succeding him—become very much alarmed, and we try to cut out our loans or begin borrowing money.

I have read this bill as carefully as I can. I do not profess to be an expert on this question, but there are some awfully good features to it, and there are some features which, to my mind, are objectionable and should be remedied.

The first feature I want to speak about is that there are too many proposed regional banks. I do not believe that there should be as many as 12, but if there should be as many as 12 I believe that the bill should be changed so as to say not more than 12. The bill, as it stands now, as I read it, says that there shall be not less than 12, and when 10 member banks petition there may be other reserve banks organized.

Now, it seems to me that, instead of a mobilization of our reserves, the very thing of which we complain—the scattering of our reserves—will be brought about by the establishment of too many of these regional banks. That is my view of the matter.

Senator NELSON. Don't you think one would be really better?

Mr. BOLTON. I should prefer one. I am one of those who prefer the one central bank.

Senator NELSON. Under Government control?

Mr. BOLTON. Yes, sir; under Government control.

Senator O'GORMAN. You would prefer for the Government to issue currency?

Mr. BOLTON. No, sir.

Senator O'GORMAN. You do not approve of that?

Mr. BOLTON. No, sir; I do not.

Senator O'GORMAN. Why?

Mr. BOLTON. I do not believe it is necessary. I do not believe that these notes should have any more collateral behind them than is necessary, and I do not believe it is necessary for the Government to issue notes. I believe the notes of the banks are just as good and will pass current just as well, and the Government might just as well save its own credit for times of stress and not endanger that credit by being a guarantor, so to speak, upon all these bank notes. I have no objection to the Government, if it wants to be the guarantor of those notes, becoming such, but the Government is not only the guarantor in this case, but is the issuing power; that is, it is the issuing institution. Instead of the bank being the institution that issues the money, I understand this bill proposes the Government shall issue it.

Senator WEEKS. Mr. Bolton, as I recall, you had 60 years ago in Louisiana a system of issuing bank notes through State banks which was perfectly satisfactory, in which there were no losses made——

Mr. BOLTON (interposing). That is correct, and it was the only State in the Union where the State bank notes were taken at par all over the country.

Senator NELSON. And they were good all through the Civil War?

Mr. BOLTON. Yes, sir; they were.

Senator NELSON. And passed when cut in two?

Mr. BOLTON. Yes, sir; that is true; so I am informed.

Now, gentlemen, I say it is wrong to force these national banks to become members of this system and not give them the option of saying that they will or will not become members, for the reason, first, that you can do so, that you can force them to do so. I say it is wrong for a Government to take advantage of a position in which it is to say to a man, "You shall invest your money." Remember, gentlemen, that a bank is an aggregation of individuals; it is not a something created by the act of the Lord or by the Government itself; it is an aggregation of individuals carrying on a business under a charter granted to it by the Government. As the gentleman from Indiana said this morning, the people who took this charter expected that the charter would run for 20 years, and it would not be taken away from them, except for just cause.

So far as our State bank is concerned, there is no power in the world that could take our charter away from us. We are incorporated for 99 years. They can, of course, for violations of the State law, close the bank or punish the officials, but they can not absolutely abrogate our charter. It is an absolute impossibility under our laws.

You have the power to force these national banks to do this, for this reason: Take the national bank in our town that has a capital of $100,000 and a surplus of about $250,000, with deposits running to about $800,000 additional, and with about $100,000 of 2 per cents

against which circulation has been issued. If they do not come into this plan they simply carry those 2 per cents 20 years, or a portion of them, at least. I understand the average time would be 10 years; that is, a certain portion of them would be redeemed by the issuance of 3 per cents. At any rate, these 2 per cent bonds are a loss to the banks, because the moment that the banks of the country would refuse to come into this system those 2 per cents would go to 50 or 60 cents on the dollar, and the Government has got the benefit of this low rate of interest, because the circulation privilege goes with these 2 per cent bonds.

I do not think the Government ought to take advantage of its position to force these banks to come in unless in this bill they provide for the redemption of these 2 per cents. Now, if you provide that where a national bank voluntarily surrenders its charter, or its charter is taken away from it by reason of its failure to come in, you will take up those 2 per cent bonds, you have not done them any injustice; but unless you do that it seems to me there has been an injustice done. I understand you are asking the State banks to join this system, and if you are going to do an injustice to my friends of the First National Bank across the street, or what I conceive to be injustice, I will be very careful about going into a proposition for fear that there will be injustice done to me at some future session of Congress.

Senator REED. May I ask you a question bearing upon this matter you have just touched?

Mr. BOLTON. Certainly.

Senator REED. Suppose that the Government has chartered an institution which we may call the banking institution of the country. I speak of it as a whole now—a national bank. Experience has demonstrated to it that there are times when that system breaks down. When it not only is unable to perform its functions but suffers enormous losses, and not only now, but in the past, it has been appealing to the Government for aid, and that aid has been rendered by the Government taking its moneys and depositing them in various places to meet emergencies.

Now, with that condition confronting us, do you think it is in the nature of a wrong or an outrage to say:

> Here is a remedy, but it is a remedy that will be ineffective unless you all come in, and therefore we insist that you come in?

Mr. BOLTON. If you will omit the word "outrage," yes; I will say it is a wrong.

Senator REED. Then your idea would be that the Government, having chartered banks for the purpose of carrying on certain functions as chartered institutions, and it becoming manifest that the system is dangerous—liable not only to ruin itself but to ruin a great many others—that ought to be continued indefinitely?

Mr. BOLTON. If you require these national banks to come into this plan you are forcing them to give up what I consider to be a vested right.

Senator REED. But you fail to catch one thought. We want to be fair about these matters.

Mr. BOLTON. I understand.

Senator REED. We can not change a fact, any of us, by the addition of adjectives or by taking a one-sided view. I am not saying that you are; none of us can. It must be manifest to you, as an intelligent man, that while this banking system of ours is not, as some have described it, the worst banking system in the world, but is in many respects a most excellent system, that nevertheless there are danger points, not only endangering the banking system and its functions, but endangering the rest of the country. Now, do you think that the Government is powerless to say to the banks, "You must meet this situation"?

Mr. BOLTON. I do not think the Government is powerless to do so, but let me call your attention, Senator, to the fact, as I understand it, that there is a great deal of difference between power and right.

Senator REED. When I say powerless I mean in the sense of right. Do you think a Government can not rightfully say to an institution which, in the progress of its development, has reached the point where it can not fulfill the functions for which it was created, "You must change your plan, and if you do not change your plan we will have to insist you go out of business."

Mr. BOLTON. That is all right, but treat them fairly about these 2 per cents. Take them up when you do so.

Senator REED. I am not talking now about 2 per cents. I am talking about this cry that it is an outrage upon the banks.

Mr. BOLTON. I say if you force the national banks to go into this proposition you should give them the opportunity of declining to do so, and when they decline to do so you should take care of their 2 per cents.

Senator REED. I do not think there is a question on earth but that the Government of the United States, having received 100 cents on the dollar for those bonds, ought to take them up from the banks at 100 cents on the dollar.

Mr. BOLTON. But they do not propose to do so in this bill; that is the point. If you say that a national bank must join this association, and in case they fail to join it within 12 months—which is the time limit, if I remember correctly in the bill—but say to that national bank, "If you do not join it your charter is going to be forfeited and we will take up your 2 per cents," I am with you.

Senator SHAFROTH. The bill provides for 3 per cent bonds to be issued in lieu of them.

Mr. BOLTON. I believe it does.

Senator SHAFROTH. Is not that equitable?

Mr. BOLTON. No, sir; I do not think so, because a 3 per cent bond is not worth par to-day.

Senator REED. Suppose we were to do this—I just suggest this as a possible alternative. Suppose we were to provide that the banks that came into this system would be required to keep a reserve such as is specified in the bill; that the banks that refused to come into the system should be required to keep in their vaults a large reserve, thus keeping in their vaults that element of safety which they might possess by coming into this system. Would that be wrong?

Mr. BOLTON. I have only stated this proposition from the bill that is before you.

Senator REED. You admit that if the system will not stand alone, if it is not strong enough to do the business of the country, if there

are times when its collapse may endanger not only the banks but the business of the country that it would be wrong?

Mr. BOLTON. Yes, sir.

Senator REED. You say they ought not to be forced?

Mr. BOLTON. Yes, sir.

Senator REED. We are trying to devise a plan by which an element of safety can be introduced into the system—which the authors of this bill think is not a harsh system, but a very beneficial one. A bank that thinks it is a hard system will not want to come in.

Suppose we provide, as an alternative, that a bank not coming into this system could remain out and keep its charter, but, in that event, it should carry a reserve in its own vaults of 25 per cent. You could not say that was unjust, could you?

Mr. BOLTON. I would not like to give an opinion on that question without making some figures. I have only studied this question, Senator, from the standpoint of the bill as proposed, and that question has not occurred to me.

Senator O'GORMAN. Mr. Bolton, you will readily recognize, I think, that if some of the national banks were permitted to retain their charters, even though they did not enter into this new plan, those national banks under this system should, as a matter of caution, prudence, and safety have a larger reserve than would be required of the membership banks. It would be protected by the system.

Mr. BOLTON. You could require them to keep the same reserve as they have at present, which, I understand, is smaller than the reserve under the proposed law.

Senator NELSON. It is larger than the reserve in the proposed law.

Mr. BOLTON. I mean the present reserve is larger than it would be under the proposed law.

Senator REED. That reserve has not been sufficient; that has been demonstrated in times of stress. It is not sufficient to enable the bank to stand by itself, so that if they insist on going on, holding their charters, and not coming into the system, would it be unjust to require them to keep enough reserve so that they would be safe? I won't say the amount, but would it be unjust?

Mr. BOLTON. I do not think it would be unjust to require them to keep a larger reserve than under this proposed bill; no. I think you are right about that.

Senator SHAFROTH. You do not contend that in any charter there is such a vested right that you can not change some of the terms and provisions of the incorporation?

Mr. BOLTON. Not until the expiration of that charter. I have never read the permit under which the national banks do business, but so far as our own State charter is concerned, I am absolutely certain of the fact that we have a vested right.

Senator SHAFROTH. There are changes made in the banking act of the United States every Congress nearly that affect, to some extent, the privileges that are granted.

Mr. BOLTON. There have been some very radical changes made in Louisiana's banking laws which I thought were all right, but they did not affect our right to do business.

Senator SHAFROTH. It is not a question of vested right; it is a question of what is fair treatment, is it not?

Mr. BOLTON. Yes, sir.

Senator SHAFROTH. Do you not think that under this law your bank would be better off than it is under the Louisiana law now?

Mr. BOLTON. There is one clause in that bill that I should have to have interpreted before I answer that question. Here it is: "Such by-laws"—referring to the by-laws that are provided for the admission of State banks—"shall require applying banks not organized under the Federal law to comply with the reserve requirements." That is all right—"and to submit to the inspection and regulation provided for in this and other laws relating to the national banks."

If that means we are to be restricted to the 10 per cent loan provision, which, I understand, is in force against national banks, we would have to increase our capital stock a whole lot, because we give large lines of credit.

Senator SHAFROTH. Don't you think, in the interest of the depositors, there should be some limit as to the amount of deposits you could receive, compared to your capital stock?

Mr. BOLTON. No, sir; I do not.

Senator SHAFROTH. You think if you could receive 30 or 40 to 1 it would be all right?

Mr. BOLTON. Certainly, if the people had confidence enough in your management of the business.

Senator SHAFROTH. Then, what is the use of regulation by the Federal Government or any State unless they fix some kind of limit?

Mr. BOLTON. There is no limit anywhere on the amount of deposits. I am speaking of the limit on the loans, Senator. I think they should be limited, and we are limited under the laws of our State. But the limitations are more liberal than under the national banking laws.

Senator O'GORMAN. What is your limit?

Mr. BOLTON. Ten per cent on the capital and surplus.

Senator O'GORMAN. To one party?

Mr. BOLTON. Yes, sir; and with collateral and upon the approval of the board of directors at a meeting called for that purpose we can lend more.

Senator REED. Do you think that the Government, creating a bank, ought to create it with such powers as that?

Mr. BOLTON. The question that was asked of me awhile ago by Senator Shafroth was if I did not think this proposition was of greater benefit to us as a bank, and I answered I did not think it would be of so much benefit to us. My answer was intended to mean as to whether or not we should go into this reserve system that is being proposed, that we could not without a very material increase in our capital take care of our customers. About 40 per cent of our business is lumber business. You come from a lumber State, Senator Nelson?

Senator NELSON. We have some lumber; yes.

Mr. BOLTON. When a lumberman comes in and wants some money he does not come in like our farmer friends that want a few hundred or a thousand dollars. He will come in and ask for $25,000, just like he would offer you a drink. I have loaned them as high as $50,000.

Senator NELSON. And for what time was that?

Mr. BOLTON. From four to six months.

Senator SHAFROTH. Do you think there ought to be any limit upon the amount you can loan?

Mr. BOLTON. Yes, sir.

Senator SHAFROTH. What limit would you propose?

Mr. BOLTON. Under our State law we have a limit of 20 per cent on the capital, surplus, and undivided profits.

Senator SHAFROTH. To one man?

Mr. BOLTON. Yes, sir.

Senator SHAFROTH. What are the total amount of deposits you can received compared to your capital stock?

Mr. BOLTON. There is no limitation. There is no limitation in the national law.

Senator SHAFROTH. Then the objection you have to the present bill is that with that 10 per cent, without increasing your capital——

Mr. BOLTON (interposing). We would not be able to operate. If this clause which I read means that we have to limit our loans to $9,000, we would lose 40 per cent of our business.

Senator O'GORMAN. Will you read that paragraph again?

Mr. BOLTON. I do not know that it means that.

Such by-laws shall require applying banks, not organized under the Federal law, to comply with the reserve requirements—

That is all right—

And submit to the inspection and regulation provided for in this and other laws relating to national banks.

Senator O'GORMAN. That means unquestionably that you would be subjected to the same control and regulation——

Mr. BOLTON (interposing). As a national bank.

Senator O'GORMAN. As applied to a national bank.

Senator NELSON. I so construe it.

The CHAIRMAN. You would be content with the examination, would you not?

Mr. BOLTON. We would have no objection whatever.

The CHAIRMAN. It is the regulation.

Mr. BOLTON. Only that one regulation that I know of. Of course, we could go ahead and increase our capital stock by converting our surplus and undivided profits into capital stock and get along all right. But we would have to do that, and whether our stockholders would like to do that I do not know.

Senator SHAFROTH. Mr. Bolton, your capital stock is $100,000?

Mr. BOLTON. $90,000.

Senator SHAFROTH. And your deposits amount to how much?

Mr. BOLTON. They average $1,000,000, with $225,000 surplus.

Senator SHAFROTH. Now, if you go into this you are required to keep a reserve, either in other banks or in cash, of 25 per cent of your $90,000.

Mr. BOLTON. No, sir; 25 per cent of our deposits.

Senator SHAFROTH. Yes; of your deposits, which amount to $1,000,000.

Mr. BOLTON. They will average $1,000,000.

Senator SHAFROTH. Then at present you would have to keep $250,000 either in banks or in cash?

Mr. BOLTON. Yes, sir.

Senator SHAFROTH. Now, under this bill you are required to keep both in banks and cash only 12 per cent, are you not?

Mr. BOLTON. Yes, sir.

Senator SHAFROTH. And 12 per cent of $1,000,000 would be $120,000?

Mr. BOLTON. Yes, sir.

Senator SHAFROTH. That would release to you in capital that you could use for loaning purposes and for building up credit $130,000, would it not?

Mr. BOLTON. That is the way it figures, but it would not, because we would not allow our reserve to get below 25 per cent.

Senator SHAFROTH. If you had a reserve association that you could go to at any time and ask them for money and be sure they would give it to you——

Mr. BOLTON (interposing). I am not so dead sure they would do it.

Senator SHAFROTH. But that is the object of this system. We have to presume it will work——

Senator NELSON (interposing). And would you not have to keep accounts with others?

Mr. BOLTON. Unquestionably.

Senator SHAFROTH. You may have to do that bank exchange, but you could, as a matter of fact, have $130,000 released by joining this system, and down in your country that is worth fully 6 per cent——

Mr. BOLTON (interposing). We would not have $130,000 released; no, sir. You would have the power to do it, but I do not think a a bank ought to operate with less than 25 per cent reserve.

Senator O'GORMAN. What is the prevailing rate of interest in your State?

Mr. BOLTON. I should say that our loans would average 7 per cent.

The CHAIRMAN. How many cases have you where you exceed $31,000 to a single individual?

Mr. BOLTON. Not many; we have a few cases.

The CHAIRMAN. How many would you suppose?

Mr. BOLTON. I recall two right now.

The CHAIRMAN. Under this bill you could loan up to $31,500 against your reserve, but you think that the loss of those two accounts——

Mr. BOLTON (interposing). I was only speaking of what we have on our books right now. We have other customers who ask us for very heavy loans. Of course, we could increase our capital stock to $350,000, and get along on a 10 per cent provision.

The CHAIRMAN. Now, you can take 10 per cent against your capital and surplus——

Mr. BOLTON (interposing). I thought it was capital.

The CHAIRMAN. Then the only objection you make against this has disappeared?

Mr. BOLTON. If we could get along like our national-bank friends do.

Senator HITCHCOCK. Would you propose to nationalize?

Mr. BOLTON. No, sir.

Senator HITCHCOCK. Your State laws do not allow you to keep less than 25 per cent?

Mr. BOLTON. No, sir. We have some advantages as a State bank One of them is that under our law we can have a savings depart-

ment, which we have not. Another is that we can lend money directly upon real estate, which we do not do very much of. We carry less than 10 per cent of our loans—frequently not more than 5 per cent—upon real estate. It is just a little bit more pleasant to do business with the State bank examiner than with the comptroller—from the accounts I get from my national-bank friends. The comptroller is a little bit more arbitrary, and yet our State bank examiner is very strict. We have a magnificent bank-examining system.

Senator HITCHCOCK. Will you tell the committee whether other States also require a reserve of 25 per cent?

Mr. BOLTON. I do not know what they require. Our reserve at one time, Senator was 33⅓ per cent.

Senator NELSON. Louisiana has always had that banking system.

Senator REED. In order for you to come in and not suffer some through the requirement of a deposit reserve, you would want the law modified so that you would get some advantage out of carrying this large reserve at home?

Mr. BOLTON. Yes; we would have to have our State law modified.

Senator REED. If it was not modified, you would want this bill modified?

Mr. BOLTON. I tell you, gentlemen, the main objection I have to borrowing money—I want to borrow my money from bankers, and bankers do not run this system that you gentlemen propose.

There is only one banker provided for on the Federal reserve board—only one. There is absolutely no representation at all from the people who own these reserve banks—that is, on the Federal reserve board—and only one-third of them that they absolutely control as directors of the regional reserve banks. They elect six, but three of them are subject to be removed by a politically appointed board.

Senator REED. Now, I want to have a seance with you about the bankers furnishing this capital. The bankers take enough of their capital which they now have to the regional bank to equal one-tenth of their capital stock, and they take over 6 per cent of their deposits, which counts as a reserve. Now, that is all in their banking business to-day, and they can immediately borrow it back and substitute their notes. There has not been a dollar of new banking capital added yet.

Mr. BOLTON. That is true.

Senator REED. Now, the law requires the Government of the United States to deposit every dollar of its money in these banks, except the gold that is now held in reserve in special funds; but the banks can immediately transfer that gold by the simple process of requiring the redemption of the gold-reserve notes, so that the real financial strength that comes to these banks comes out of the Federal Treasury.

Mr. BOLTON. I do not agree with you.

Senator REED. That is what this system is being created for very largely, to give the banks a right to come to the Federal Government and ask to have money issued. Now, in view of the fact that practically all of the elements of strength come from the Federal Government and that the bill requires the Federal Government to deposit all of its moneys in these banks willy-nilly, don't you think they ought to have something to say about it?

Mr. BOLTON. I believe the Federal Government ought to control the Federal reserve board, and I believe this: I am perfectly will-

ing, as far as I am concerned, for the President to appoint every member of the board, but I believe that those four members who are appointed by the President, outside of the ex officio members should be men of actual banking experience.

Senator O'Gorman. Do you not think that is the kind he would select?

Mr. Bolton. He is not required to do it. Either those four or else the President ought to be required to give representation to the banks of, say, about four men out of a list of men selected or nominated by the banks.

Senator Reed. Let us consider that a minute. Don't you know that if you require me to name 50 men from which you shall select four, I can compel you to select the four I want absolutely?

Mr. Bolton. No, sir; I do not think you can.

Senator Reed. I certainly can. If it was 4 men to run your bank. I could select 46 horse thieves and 4 gentlemen, and you would have to take the 4 gentlemen.

Mr. Bolton. But those bankers could select a list of men who ran their own banks.

Senator Reed. But they could select a list in such a manner as to absolutely compel the taking of certain men. That trick has been played a thousand times by pretty good men. [Laughter.]

Senator Nelson. I do not want to interrupt you, Senator Reed, but I wanted to ask him a question. Are you through?

Senator Reed. Yes; I am through.

Senator Nelson. I would like to hear you on this exchange proposition.

Mr. Bolton. I am coming to that. I would like to finish the balance of the statement first.

Senator Nelson. I would like to hear you on that point.

Mr. Bolton. Another reason why I do not care to go into this reserve system is we would lose 2 per cent on our balances we have. We are required to carry a 25 per cent balance, and we would lose 2 per cent on that.

The Chairman. On all of it?

Mr. Bolton. Two per cent on our reserve. On 17 per cent of our reserves we get 2 per cent.

The Chairman. How much would you lose—what per cent of that would you lose on under this system?

Mr. Bolton. We would lose 2 per cent on the amount we were required to carry with the Federal reserve bank, which, as I understand, is approximately 6 per cent.

Senator Shafroth. Five per cent.

Mr. Bolton. Will it not be 6 after the banks have been in existence for 36 months?

Senator Shafroth. No; 5.

Mr. Bolton. That would mean a loss of $1,000 a year to our bank.

Senator O'Gorman. Is it not fair to assume the money on reserve at the regional reserve banks will be profitable and you will get possibly the equivalent of 5 per cent?

Mr. Bolton. I don't know about that. I know that we would get something back—that is true; yes.

Senator Bristow. That 5 per cent would be on your stock and on your reserve?

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 21

[Printed for the use of the Committee on Banking and Currency]

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COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman*.

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk*.

Mr. BOLTON. Yes; but he is speaking about the share of the earnings the bank would get upon their deposits, as I understand it. Is not that correct?

Senator BRISTOW. You get more than 5 per cent on the stock now?

Mr. BOLTON. On our capital?

Senator BRISTOW. Yes.

Mr. BOLTON. Oh, yes; we earn more than 5 per cent.

Senator BRISTOW. It would be limited to 5 per cent on the capital or deposits, and you would get nothing on the reserve?

Mr. BOLTON. Yes.

Senator O'GORMAN. What do you get now on your capital?

Mr. BOLTON. We earn from $30,000 to $35,000 a year.

Senator REED. On how much capital?

Mr. BOLTON. $90,000; and we have $225,000 of surplus.

Senator REED. You got that surplus out of profits?

Mr. BOLTON. Yes; but only by declaring low dividends.

Senator REED. How low? Did you ever declare below 6 per cent?

Mr. BOLTON. Yes; one year 4 per cent, and for two years only 8 per cent. [Laughter.]

The CHAIRMAN. As long as you can borrow two-thirds of it at 5 per cent, the reserve you would put in the reserve bank, and as long as you loan your funds on an average of 7 per cent—if you got that money at 4 per cent it would be reasonable to suppose you would have a margin of 3 per cent, or two-thirds of 5 per cent, which would average you 2 per cent on the 5 per cent and be identically the same as you get now, would it not?

Mr. BOLTON. That would be true if we run right down to the legal reserve; but oftentimes we have as much as 40 per cent.

Senator REED. No; I am not talking about your reserve.

The CHAIRMAN. The hour is so late now we will have to adjourn.

Senator NELSON. I would like to hear him on just one point.

The CHAIRMAN. At 10 o'clock to-morrow morning the committee will meet in the room just across the way here, the Appropriations Committee room.

Senator NELSON. I wanted to ask you one question. It may take a little time, but I wanted to have him explain this exchange business.

Senator O'GORMAN. We are called upstairs, Senator.

Senator NELSON. Will you be here to-morrow?

Mr. BOLTON. I can be here at 10 o'clock.

Senator NELSON. You will be entitled to the stand first.

(Thereupon, at 5.45 o'clock p. m., the committee adjourned until to-morrow, Friday, October 3, 1913, at 10 o'clock a. m.)

FRIDAY, OCTOBER 3, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. It was agreed last night that Mr. Bolton was to have 10 minutes to conclude his statement. We will hear you now, Mr. Bolton.

STATEMENT OF J. W. BOLTON—Resumed.

Mr. BOLTON. Senator, I only want to make another objection to this system, and that is to say I think the power of the Federal reserve board in reclassifying the reserve cities and particularly the classifying of a bank in a reserve city as a country bank is an arbitrary and dangerous power to be given to the board, and I do not think it is wise.

Now, the thing I wish to say that affects our bank more than anything else is this exchange matter.

The CHAIRMAN. Have you anything to add to what Mr. Foote said yesterday?

Mr. BOLTON. Yes. I want to say it costs us about $3,000 a year; and I feel the reason for it, so I have been told, being inserted in the bill is to get rid of an abuse. You do not get rid of an abuse, because the banks that make unreasonable charges are the little bits of small country banks that you can not get at. That is what I wanted to add to what Mr. Foote said on that, and I want to impress that one thing upon you—that it is the little, small country banker who makes the unreasonable charges.

Take Alexandria, for instance. This means, as I say, a loss of $3,000 a year income to us, and then a loss of an additional $1,000 in the form of revenue we would have to pay to the little inferior bankers for collecting items we take at par over our counter. The little interior bank, that is not a national bank, with a New Orleans correspondent, would send his item on to Alexandria, to the National Bank of Alexandria, and it in turn will deposit it with the Federal reserve bank in New Orleans. It, in turn, would send it to Alexandria—to our bank—which is a State bank, and as a member bank it would be forced then to collect that item without any cost or any compensation whatever, and we are deprived of that revenue.

It is the little banker who abuses this collection charge, and he goes free unless it is proposed by the Government to collect this either through the post office or through the express office; and I feel. myself, that, in the last paragraph of section 17, the most that should be said upon that subject in this bill is:

> It shall be the duty of every Federal reserve bank to receive on deposit at par checks and drafts drawn upon other Federal reserve banks.

I do not believe this other provision is a part of the currency bill; I believe it is a part of the detailed operation of this Federal reserve bank, together with other banks throughout the country.

The question was asked me yesterday whether we would care to go into this proposition or not. I will say the law gives us a great deal of money, Senator, but I do not believe the bankers ought to be forced to contribute a large amount of money to the capital at 5 per cent interest, to put in a large amount of money on deposit, on which they get no interest, and to be deprived, also, of this exchange revenue.

I believe that this is going to create a kiting of checks, and I say that is going to be a dangerous feature of the bill, and I want to read one or two of the opinions that were expressed at Chicago by one of the bankers—one of them by Mr. Fenton, of Chicago, referring to this matter. He says:

I think it is one of the worst things in the whole bill. I can not conceive why the bankers in the large cities should favor it for even a minute, as some of the smaller bankers seem to imagine.

Nobody would get rid of the cost of handling these items by turning them over to the Federal banks, because the national bank owns it. If Congress can pass a law compelling this reserve bank, our bank or yours, to take a piece of paper not worth par, not collectible for 30 or 60 days, it can compel a bank to take a 30 days' note without charging interest.

At the present $1,000,000,000 is floating around the country in checks on country banks. If this bill goes through this will be doubled. The $50 check on the country bank will be as good as currency the minute it goes to a reserve bank. The flood of checks would get so large that it would absorb all the reserve.

It is not practicable, in the first place, and in the second, after going to a great deal of pains to secure the currency notes, checks are introduced as currency with nothing at all back of them. It is one of the most infamous things ever heard of. I have been trying to find the man who put it into the bill and can not. How it can be entertained for a moment by any banker, I can not conceive. A man working on both the Atlantic and Pacific coasts could open a few bank accounts for trifles and float any amount of checks he wanted to.

The interlocking of swapping of checks all over the country, which would be encouraged by such a provision, would be disastrous to the business interests.

Now, it seems to me that that statement is correct, that that gentleman has a correct view of the situation.

Another feature of the matter which is going to operate to the advantage of the big city bankers and to the detriment of the country banker is this: The big city banker now has clearing-house arrangements by which he can charge his country customer. We can not do that with the country bankers, because we have not that inflexible clearing-house system.

Another feature: If the city banker takes on a country bank like ours, he does it because he is able to make an earning on our business, and he checks over the accounts every month of every one of the correspondents to see whether he is making a profit on them. If he does not make a profit on our account, he writes to us about it. We have never had any letters of that kind, because most of them make a profit on our business, but it seems to me, as I stated a while ago, it is a matter which has no place whatever in a currency bill.

I want to say, I believe every State banker should join this system, if it is possible for him to do so, but I do not believe he ought to be called upon to do it at a very heavy loss to himself. The banks of this country should not be expected to bear all of the cost of putting this system into operation (this is my viewpoint), because this system not only takes care of the banks, but it takes care of the merchants, the manufacturers, and the farmers, and all classes of people in all classes of business.

The Chairman. Mr. McMorries, we will hear you now. I will ask you to speak as directly to the point as possible.

STATEMENT OF EDWIN McMORRIES, PRESIDENT OF THE FIRST NATIONAL BANK OF MERIDIAN, MISS.

Mr. McMorries. I want to say, Mr. Chairman, that I am going to cover only a very few features of the bill, because I have listened with very much interest to the gentlemen who preceded me and believe they have covered very fully many of the things I had in mind to speak of.

First, I want to voice my objection to one feature, as a banker, which I believe is held in common by all of the bankers—city bankers and country bankers alike—and that is the coercive feature of the measure, making it compulsory that the banks become members of these regional reserve banks. We do not believe we are warranted in subscribing so large an amount of our money, placing so large an amount of our deposits, in any concern that has no indemnity to offer us whatsoever. Our bank, for instance, would be compelled to contribute to the regional reserve bank about $36,000 in capital stock and about $120,000 in deposits, making a total of about $156.-000. We have no indemnity whatsoever that this money will ever be returned to us. It may possibly be returned, but it is not absolutely certain. We may get a return of 5 per cent on our capital stock or we may never get anything at all. The banks may never earn anything, and we absolutely have no indemnity for the return of the money on deposit, which we are obliged to contribute, without any compensation.

We carry, say, about $400,000 or $500,000 idle reserve. That reserve money is scattered among 40 or 50 banks all over this country, for several reasons. One reason is we divide the risk. Now, if we carry $100,000, as we ought to do, with our New York correspondent, we have as indemnity for the return of that money their own capital. We know they must lose their money before we lose ours. That would not be true of the reserve bank at all. Every dollar of our money is a risk of ours. So I believe a great many banks would hesitate to place so large an amount of their money with an institution if it had no indemnity to provide for its return ultimately and in the management of which they have no voice whatsoever. We would not dare to do that. We believe the Government will act with all wisdom in the appointment of these gentlemen, but we believe that if the Government is to be a shareholder in the profits of this regional-bank system they ought also to be shareholders in the possible losses. If we are going to be coerced in putting money on deposit and making subscriptions to the capital stock of the regional reserve banks, and never make a return in the shape of dividends on our stock, in all conscience there ought to be some assurance given us, some indemnity providing for the ultimate return of this money, this reserve, we place with the regional reserve banks under the proposed bill. There is absolutely no indemnity that anything covered into the reserve banks may come out of the system.

That is about all I have to say on the coercive feature of the bill.

Senator Weeks. I would like to ask you one question.

The Chairman. I want to say to the committee it was understood these gentlemen who were here yesterday would take 10 minutes apiece, and unless that policy is pursued we will not be able to hear these gentlemen, because there are other gentlemen here—the Indiana delegation—who have been here since Wednesday morning and have been waiting to be heard.

Senator Reed. Mr. Chairman, so far as I am concerned, I would just as soon not hear a witness at all as to have him come here with a prepared speech, and I could not ask any questions.

The Chairman. I made the observation because of the exigencies of the case.

Mr. McMorries. As a matter of fact, I would rather say what I have to say to the committee in the way of answers to interrogatories, because I have no set speech to make. I would greatly prefer to give the committee my views in the shape of answers to interrogatories.

Senator Weeks. I want to ask you about the compulsory feature you have referred to. You do not doubt the right of the Government or any State to modify or in any way change a charter which it has granted, do you?

Mr. McMorries. No, sir.

Senator Weeks. Or the privilege which it has granted?

Mr. McMorries. No, sir.

Senator Weeks. Is not the compulsion which you complain of a question of principle rather than the question of dollars and cents? It is not, to my mind, a question of whether you are going to make larger profits on the amount of the capital stock which you subscribe, or any profits at all, or whether you will ever get the money back. There is not involved in this proposition the question of whether the Government is justified in taking a certain part of the capital of one of its creatures and employing that capital as it sees fit, and the creature itself have nothing to do in its management?

Mr. McMorries. No; I can not consent to that doctrine at all.

Senator Weeks. If it has a right to take 10 per cent of the capital of the national banks in this way, it has a right to take 20 per cent or 30 per cent or 50 per cent——

Mr. McMorries. All of it.

Senator Weeks. Or all of it. And is not the broad principle involved there whether it is wise for the Government or a State to grant a charter and then, even under the conditions which surround those men, compel the corporation to turn over to the management of somebody else, without any voice in its management, a part of its capital or assets? It seems to me there is the question which this committee has to decide—not the matter of whether you are going to get a large interest or small interest return or any interest at all.

Mr. McMorries. Still it is the money of the banks that is being contributed.

Senator Reed. I want to challenge that statement directly, because it has been made here for weeks. The banks do contribute 10 per cent of their capital stock, and they have to deposit 6 per cent of their customers' money.

Mr. McMorries. Yes.

Senator Reed. All that the banks contribute is 10 per cent of their capital stock. Of course, they are liable for 6 per cent of the deposits, but the Government is required to deposit under this bill all of its money and to risk all of its money. Is not that so?

Mr. McMorries. Yes; but then the sole supervision of the banks is in the Government and the bankers have no part in the management of it at all.

Senator Reed. Aren't you mistaken about that?

Mr. McMorries. No, sir; I do not think I am.

Senator Reed. This regional reserve bank is controlled by a board of directors, the majority of whom the bankers select. Now, the majority of the board of directors has the control of an institution.

Mr. McMorries. Yes.

Senator REED. Whether there is something in your complaint or not on that matter, I object to these constant reiterations that the banks furnish all the capital, when, as a matter of fact, the Government deposits all of its own money and then proposes to furnish the additional money needed for the commerce of the country.

Mr. McMORRIES. I still say and insist the banks furnish all the capital. The Government does not furnish any part of its capital.

Senator REED. Won't the Government put its money on deposit?

Mr. McMORRIES. It puts money on deposit, yes; but the banks make deposits also, and the Government has the sole supervision.

Senator REED. Not the sole supervision under this bill.

Mr. McMORRIES. Well, a majority of the directors are elected by the member banks, but any director the member banks elect may be removed by the Federal reserve board.

Senator REED. Yes; and his succesor elected by the banks.

Mr. McMORRIES. Yes; and he can constantly be removed by the Federal reserve board.

Senator REED. And just as constantly as they are removed new directors can be elected by the banks.

Mr. McMORRIES. We believe if there is to be a division of profits between the Government and the member banks the division ought to be made on the ratio of the average balance. Provision ought to be made for returning profits to the banks in the ratio of their average balances. I believe their share of possible losses should be determined in that way.

Senator REED. How would it suit you, if the Government is going to organize these banks, that no bank be required to contribute at all and then provide that the banks should deposit their reserves there or be compelled to keep them in their own vaults? How would that suit you?

Mr. McMORRIES. I think so long as it is left in the discretion of the banks I think the banks would put their money in the regional reserve bank unless in their opinion it was being improperly managed. But I believe it ought to be left to the discretion of the banks. I do not believe it ought to be made compulsory, and when I use the term "compulsory" I think the present bill, as I view it, leaves to the bank only a choice of two evils, that is all. I believe the Government has not given any vested rights in any charters. I do not agree with the gentleman who preceded me. I believe the Government has the right to abolish the national bank act as it now stands if it is a menace to the country and an evil, but they should leave the banks, to which these charters were originally issued, in the same shape they were before the Government granted them those charters. For instance, we were obliged to buy a given amount of Government bonds in order to enter the system and paid wholly an artificial value for them, because we were given the circulation privilege. To sum it all up, I believe that if it is going to be left to the discretion of the banks, and they do not enter the system, I think the Government should relieve them of the bonds and retire the circulation, but leave it to the banks to determine whether they will take out a State charter or become a national bank. I think it ought to be in the discretion of the banks to choose whether they will drop out of the system and the Government ultimately buy back the bonds which were

granted with the charters that carried with them the circulation privilege. We all know that the bonds could never have been marketed by the Government without this circulation privilege, and if the charter is revoked before maturity I believe in all conscience the Government ought to leave the banks in the same position they were before they went into the system.

Senator REED. I want to present this view to you. I think you are a fair man and I think this committee and Congress wants to do what is fair. We set up a banking system in this country and you came into it with many others. That banking system requires the banks to be ready at all times to meet the demands of their depositors, to pay back their obligations. Experience has demonstrated that the banks, under the present system, can not always be ready—at least, they are not always ready. Twice the entire system has broken down. In 1907 there was scarcely a national bank in the Federal Union that was not liable immediately to arrest of its charter and forfeiture of all its rights and to be wound up by a receiver. I take it nobody will dispute when a bank says to its customer, it won't pay the deposits on demand, except in the case of time deposits with that bank it has committed an act of absolute forfeiture and the Government has a right to close its doors under the law.

Now, having found the system works that way, the Government realizing, of course, it would be a great hardship and perhaps a great wrong to have enforced the law, and desiring now to provide a system that will remedy that particular evil, do you think that the Government is doing anything in the nature of a hardship, if it says to the banks, "Now, you can not exist as you are now and comply with the law. You have failed to do that. If you go on, you must accept some plan which will obviate the evil we have already experienced, and make it impossible in the future."

Now, is that bulldozing at all?

Mr. McMORRIES. No, sir; that is right, but this might not be the only method or the best method.

Senator REED. If you do not think it is the best method——

Mr. McMORRIES. I do not.

Senator REED. I will say frankly I do not apply this to you personally, but I am getting a little tired myself, individually, of having bankers come in here from all over the country and talk about this bill, to which I am not in any way committed—to talk about it as an attempt of the Government to bulldoze and as being un-American, when, as a matter of fact, it is only an effort to remedy a system and make a system work and to protect the banks against the very thing they have suffered from. If it is not a good system, if it can be made so, as far as I am concerned, I would like to hear about that.

Mr. McMORRIES. I understood, Senator, we were invited here in order that we might express to you our view about the bill. I have no disposition to weary the committee at all——

Senator REED. I did not mean that; do not misunderstand me.

Mr. McMORRIES. No; I have no disposition to do that at all, but if it is going to be worth while for us to come here, I think we should submit to you our view and feeling. And I do believe it is un-American for the Government, after we have bought the bonds and have the charter, to take that charter away from the institution unless

it is going to subscribe to an amount of capital and contribute to the deposits and turn the funds over to them without our having a voice in the management. I can not consent to that as an American citizen. I feel that way about it, and I would not be honest with you if I did not say as much to this committee. I believe the national-bank act ought to be modified so as to correct its defects, but I am far from feeling that the present bill as it passed the House is an ideal bill in that respect.

Senator REED. I do not think it is ideal.

Mr. McMORRIES. I do not think so at all. I will pass from that feature of it, unless there is something else about which you desire to ask a question.

Senator BRISTOW. Referring to Senator Reed's question as to the national-bank system having broken down, that was because the banks could not pay their deposits upon demand if a very large per cent of them demand the return of deposits at the same time. That is incident to any banking system on earth, is it not?

Mr. McMORRIES. Yes; this, for instance.

Senator BRISTOW. Of course it broke down, and that is a defect, but the remedying of that defect could be made without tearing up the entire system, could it not?

Mr. McMORRIES. We think so.

Senator BRISTOW. And inflicting what appears to be an inequity upon those who, upon the importunity of the Government, have gone into business.

Mr. McMORRIES. We take that view about it; yes. I can not admit that the national-bank act as it stands has utterly failed. I know our bank, for instance, went through the panic of 1907 without placing any kind of restriction upon its depositors and without having to borrow from any correspondent. And we are not alone in that. I know quite a number of banks that did that—that did not borrow any money or put any restrictions upon their depositors.

Senator REED. Nobody claims it was universal.

Mr. McMORRIES. No, sir; it was not universal. They will always have well-managed banks and poorly managed banks.

Senator NELSON. You could not devise any system to prevent the management of a bank extending undue credits?

Mr. McMORRIES. I do not think so. We think that the national-bank act has defects and ought to be remedied, but I do not believe this bill will remedy them.

Senator NELSON. The acute outbreak there in New York occurred in connection with the trust companies and not under the banking system?

Mr. McMORRIES. That is where the trouble started, just as in the panic of 1893.

Senator NELSON. That is where the fire started. We felt the effect of the panic in London. It had such enormous ramifications that it reached around to us by and by.

Senator REED. You said to Senator Bristow that there were evils in the system and there was a remedy. Now, tell us what the remedy is in your judgment.

Mr. McMORRIES. It is a great big question I can not undertake to answer. I am not working out a bill. In reality I believe the chief

defect of the national bank act as it is to-day is the pyramiding of reserves. I find one other feature in the bill, the one good feature, the centralizing of the reserves in the country.

Senator NELSON. I am glad to find one who agrees with me.

Mr. McMORRIES. I believe that is the weak place in the system to-day. I believe the reserves ought to be decentralized.

Senator REED. How much ought they to be, then, the reserves, if you do not permit it?

Mr. McMORRIES. The reserve in the bill as it passed the House is reduced, for the country banks, to 12 per cent.

Senator REED. This bill of course provides a system of its own; but just let the other system stand and do not allow pyramiding or rediscounting. How much do you think the reserve ought to be?

Mr. McMORRIES. I think the reserves worked out in bill are all right. I have no objections on that. I think that ratio is all right.

Senator NELSON. I think that is the best feature of the bill, the reserve feature.

Mr. McMORRIES. Yes; I think it would be all right as it is worked out.

Senator REED. Would you prefer, now, keeping this deposit in your own bank and getting nothing from it then to have to put it in a regional bank and get the interest that it would earn?

Mr. McMORRIES. I would rather put it in the regional bank.

Senator BRISTOW. The regional banks do not pay any interest on deposits.

Mr. McMORRIES. You would not get any interest any place, you know.

Senator REED. What would you think about making the bank reserve greater than it is now, requiring the bank to keep it in its vaults, and then allowing it to intrench upon or invade that reserve, but when it did so to tax it?

Mr. McMORRIES. I think that is a good feature. I believe that the bank ought to be required, if there were to be any modification in the reserve feature in that bill—I believe the requirements as they are now ought to be reduced, because most of us are near centers where cash money could easily be secured if by any reason our wants were abnormal. Under the present law we carry a 6 per cent reserve in our vaults. In our bank that amounts to $125,000. We are within a few hours of New Orleans, and it is wholly unnecessary to keep so much money as that, especially in vaults. I believe that feature ought to be reduced—the amount kept in our vault.

Senator BRISTOW. Other bankers who have appeared before us say 6 per cent is entirely inadequate for their necessities. One gentleman who appeared, I believe, said if he only had 6 per cent in his vault he would not sleep at night.

Mr. McMORRIES. There may be something peculiar in the location or in the character of the business. We quite often run below the character of reserve for abnormal times, knowing that within a few hours we could replace it without any trouble.

Senator WEEKS. That is. depending on the character of the business the bank is doing?

Mr. McMORRIES. Wholly so.

Senator WEEKS. As to whether the pay rolls are large and the location of the bank with relation to reserve centers.

Mr. McMorries. If they are in close proximity to reserve centers, they could carry a very much smaller reserve than the banks far away. The banks that are far away from reserve centers would need to carry a much larger cash reserve than the banks near the reserve centers, naturally.

Senator Bristow. Suppose we had, instead of 12 regional banks, 1 Federal reserve bank, where these subscriptions were voluntary and the bank performed the functions that the regional bank performed, or is supposed to perform, under this bill, except more extensive; that is, to rediscount the paper of any bank whether it is a member or not, regardless of its capital, if it is a creditable banking institution. What would you think of such a plan as that?

Mr. McMorries. That would run directly in competition with the member banks who would contribute to this capital stock.

Senator Bristow. They do not contribute, I say. Let it be voluntary; let it contribute to it or not, as they please.

Mr. McMorries. I think that would be all right. I would not object to that. If the public wanted to subscribe to the stock of any such institution, to let it be entitled to do that. I would not have any objection to that at all. Of course, that would take the Government directly into the banking business in some capacity, but I would not see any objection to that to the banks as now organized if they would have some kind of governmental supervision.

Senator Bristow. Senator Reed asked you; or, at least, I understood him to ask you, what you regarded as the defects in the national-bank system.

Mr. McMorries. I pointed out to him the piling up of reserves.

Senator Bristow. The pyramiding of reserves?

Mr. McMorries. Yes; I believe that is the chief defect of the national-bank act to-day.

Senator Bristow. That is all.

The Chairman. Mr. McCaleb, we will hear you now.

Senator Nelson. Mr. McMorries has not finished his statement.

Senator Bristow. Mr. Chairman, I object to inviting men here and then telling them they can only talk 10 minutes—inviting men to come here from 1,000 miles and then allowing them only 10 minutes.

The Chairman. There were five gentlemen here last night, and they agreed among themselves they would take 10 minutes for their remarks before the committee. I call your attention to that fact without any further comment.

Mr. McMorries. If you will indulge me just one moment, because my time has been taken up by interrogatories. I believe if you are going into the feature of making loans on real estate by national banks it ought to be restricted to farm notes. That is one feature, and then I want to say I do not approve of the feature of the bill which provides for savings departments. I believe that is the weakest feature of the entire bill. We require a reserve of only 5 per cent, and every national banker knows that at any time they have people who want some money, when they can want it worst, they want to have their money where they realize on it the quickest and right now. Our people have a savings department there. We can not have an institution under one management. We have one reserve in the commercial bank and another reserve in the savings bank. The management, if the time came, could just as well shift it to the commercial

side. but I believe the savings-bank feature is one of the worst features in the bill.

Senator NELSON. That withdraws that much business?

Mr. McMORRIES. Yes.

Senator BRISTOW. I have avoided asking questions as much as possible, but still I can not help it at times.

The CHAIRMAN. We happen to have a cordage of witnesses who want to go on to this Boston meeting. Mr. McCaleb has been here since Wednesday, and he wants to leave at noon, but of course we can not control the members or the witnesses.

Mr. McCaleb, we will hear you now.

STATEMENT OF W. F. McCALEB, PRESIDENT OF THE WEST TEXAS BANKING & TRUST CO., SAN ANTONIO, TEX.

Mr. McCALEB. I shall not have very much to say, Mr. Chairman, for the very simple reason that I am in the main in sympathy with the bill as it stands. I think it can be bettered in a very few respects. I think, in the first place, that a great deal of argument on the score of control is out of the way. To say that we would fear political oppression—in the main those arguments are not well founded, because the Federal reserve banks in every main way are controlled by the bankers who contribute directly to the capital stock.

If this system is to be effective it must take the form, practically, of a central bank, and this Federal reserve board must act as the head of the entire system. In other words, the district banks must be more or less branch banks whom you have to count on in distributing your reserves. If you do not do it it will be ineffective—I will not say inoperative.

I find a great deal of opposition to the provision that one reserve bank may discount for another reserve bank. That must be in the bill. It is hopeless to keep your reserves at all at hand if you can not compel one reserve bank to discount for another reserve bank. You might do that in a different form.

Suppose reserve bank A has a very heavy surplus. Suppose reserve bank B is depleted. You can simply say to bank A, "You carry an amount for reserve bank B, and have B set aside, segregate, a certain amount of its collateral, and carry it in its own vaults in trust for the other." I do not think it necessary at all that the loans of one bank be transferred to the other. Let it carry them in its own vaults and have credit in the other account.

Senator NELSON. You mean, if I understand you correctly, that it should be done simply by a system of bookkeeping?

Mr. McCALEB. Precisely.

Senator NELSON. That is, one reserve bank instead of transferring discount paper or discounted paper should simply give credit to the other reserve bank, with a given sum to be fixed by the reserve board?

Mr. McCALEB. Precisely, and the collateral notes should be simply segregated in the vaults of the other bank and held in trust.

Senator NELSON. What bank?

Mr. McCALEB. The borrowing bank.

Senator REED. Or put into the hands of the Federal agents?

Mr. McCALEB. Yes; you could do that for the particular bank that needed the funds for the particular time.

Senator NELSON. It will be like this: Suppose you were a national bank and I was one of your depositors, and I did not have funds in your bank, and my friend, Senator Reed, had a big account in your bank, it would be transferring a part of his account. He would come in and say, "Transfer a part of my account to Senator Nelson's account." That is what you mean?

Mr. McCALEB. That is what it would be in effect. It is only a suggestion which I had to make. I think I had not seen that stated before. I see no reason why it would not be much better than transferring loans.

Senator McLEAN. Then, by a simple process of bookkeeping you would transform 12 banks into 1?

Mr. McCALEB. Precisely. I repeat——

Senator NELSON (interposing). Would it not be simpler to have 1 reserve bank instead of 12?

Mr. McCALEB. The only way you could establish a central bank would be to have one with branches. You could not have one central bank.

Senator BRISTOW. Why not?

Mr. McCALEB. Because of the fact that the country is practically committed against it; the Democratic Party is committed against it.

Senator REED. Are you certain of that?

Mr. McCALEB. The Democratic Party is committed against a central bank.

Senator REED. That is, a central bank privately controlled?

Senator NELSON. I did not understand the Democratic Party to be committed against a central bank controlled by the Government.

Senator REED. I did not so understand it.

Mr. McCALEB. To a certain extent it is; historically so.

Senator NELSON. I want to get you to a focus on this point. Is not this in effect, under this bill, with the central-reserve board given the supreme authority—does it not amount, in substance, to a central bank; that is, the regional reserve banks are simply branches?

Mr. McCALEB. Precisely; and if this system really works out as is hoped for, if it really works the things you hoped for it, it must come to that, in my opinion. You have got to have them, if you carry it on in this form, and you will look upon the 12 banks as branches.

Senator NELSON. That is what it means; you compel one regional bank to discount or furnish funds for another.

Senator BRISTOW. Then if we had a Federal reserve bank located in Washington, controlled by this Federal reserve board appointed under this bill, with subscriptions by the bank or citizens voluntary or not, as the case might be, with branches located in 12 or more cities, it would be a more workable plan than the one suggested?

Mr. McCALEB. I think so.

Senator McLEAN. Four would be better than one?

Mr. McCALEB. Yes; but you would have to have branches. That number would not be sufficient to take care of this business of the banks. Banks can not afford to wait for their discounts. If you had only four branches in this system to take care of the business, you would suffer such congestion it would be practically hopeless to proceed.

Senator McLEAN. They would be distributing branches.

Mr. McCALEB. I favor concentration.

Senator BRISTOW. Suppose, Mr. McCaleb, that this Federal reserve bank, located at Washington, under the direction of this board appointed by the President, as provided in this bill, had a branch in each of the reserve cities—these 48 reserve cities——

Senator NELSON (interrupting). And the central reserve cities.

Senator BRISTOW. Yes; and the central reserve cities. Would not such an arrangement be more effective in taking care of the business of the country than to have 12?

Senator NELSON. Twelve regional banks.

Mr. McCALEB. I think there is no doubt of that. It amounts to this: If you have 12 banks you have to have numerous branches, because the country is so large, geographically, and the demands from certain sections of the country are so different, and the members have to have funds at certain seasonal periods, and the demands for such funds are so varied that it requires a vast ramification of machinery.

Senator McLEAN. You would have to have branches with the 12?

Mr. McCALEB. Certainly; you would have to have numerous branches.

Senator BRISTOW. How long have you been in the banking business?

Mr. McCALEB. About 10 years.

Senator BRISTOW. Where?

Mr. McCALEB. At San Antonio, Tex. I am a State banker. We have the largest State banking system in the country, except New York and a few of the older cities. We have 800 State banks, and I have already uttered the prediction in Texas that I think practically every State bank that would qualify would practically be nationalized. We have an excellent State law, but an utterly idiotic law, because it is utterly unscientific. They require 25 per cent of reserves. If this law becomes effective, nobody can compete on a basis of 25 per cent of reserves as against 12 per cent. I have already made plans to nationalize my bank.

Senator REED. You are a State bank?

Mr. McCALEB. Yes.

Senator NELSON. Do you not regard the reserve system in this bill better than the present national banking system?

Mr. McCALEB. Certainly. We have no present national-bank reserve system.

Senator NELSON. But what is called the national-bank system?

Mr. McCALEB. You have such a thing on the statute books, but that is all there is to it. It is not a national-bank reserve system any more than it is a flying machine.

Senator HITCHCOCK. The only reserve, the only real reserve, is that part the bank is required to keep in its vaults.

Mr. McCALEB. In excess of this requirement.

Senator HITCHCOCK. Do you want to have a reserve that you can loan your funds on?

Mr. McCALEB. What have you got it for?

Senator HITCHCOCK. That is what I am asking you. You think it ought to be a thing which could be invaded?

Mr. McCALEB. You have got to invade it; it would not be a reserve otherwise.

Senator HITCHCOCK. Under what conditions ought you to be permitted to invade it? Of course, if you take off all conditions you have no reserve at all.

Mr. McCALEB. I think the conditions which are in the law here are very reasonable.

Senator HITCHCOCK. In this bill?

Mr. McCALEB. In this bill now pending.

Senator NELSON. Under your Texas law the reserve is 25 per cent?

Mr. McCALEB. Yes.

Senator NELSON. How much in your vault?

Mr. McCALEB. Ten per cent in cash in the vault.

Senator NELSON. And the balance in other banks?

Mr. McCALEB. Yes; or approved agent. I want to return one moment to that, because you hear the national banks are going to take out special charters, and all that sort of buncombe. In the State of Texas you will find all the banks nationalizing. They will be forced to it, because they can not compete. If there were no other benefits under this measure they would be compelled to do it on the score of reserve only, because no bank can carry 25 per cent as against 12 per cent.

Senator NELSON. What are your resources?

Mr. McCALEB. About two and a half million.

Senator NELSON. How much capital?

Mr. McCALEB. $150,000.

Senator NELSON. How much surplus?

Mr. McCALEB. $50,000.

Senator NELSON. $200,000 in capital and surplus?

Mr. McCALEB. Yes; $200,000 in capital and surplus.

Senator NELSON. And what are your deposits?

Mr. McCALEB. About $2,400,000.

Senator REED. I want to find out a little more about your view of one other matter. You said that if we had just a central bank and no branches that the business could not be done, because the banks could not wait so long for discounts. Now, in that, you refer to moneys which the bank might want to get on rediscounts?

Mr. McCALEB. Yes.

Senator REED. Now, let me ask you more about this, and I hope you will give us your very best view about it. Is it not true that if there was a central bank established, or 12 banks—regional banks—you would still have available to you all of that machinery which now exists, namely, your correspondents in New York, in Chicago, in St. Louis, wherever they may be, and the same opportunity to obtain accommodations from them which you would have now?

Mr. McCALEB. I think so. That is my understanding of the measure.

Senator REED. So, if we were to establish a central bank or 12 regional banks, whatever benefit was to be derived from that would be a benefit in addition to those rights and benefits you now enjoy under the general commercial system which has grown up upon the banks?

Mr. McCALEB. There is no question about that, Senator.

Senator REED. So that if we did grant that device and plan that gave complete and instantaneous relief, just in so far as it did give re-

lief, it would be something in addition to what you now have. It does not mean the deprivation of those benefits you now have?

Mr. McCaleb. Anything that we get at all will be better than what we have now.

Senator Reed. Taking into consideration the fact that in our normal and usual times you and every other sound and solvent banker can obtain from other banks upon mere commercial arrangements, business arrangements, accommodations to meet all of your ordinary necessities; taking that into consideration, if there was a place provided where, when conditions were disturbed or business relations interferred with, you could go to that other place and get some help, that would be a great benefit, would it not?

Mr. McCaleb. Unquestionably.

Senator Reed. It is not true that almost without exception the banks know, for some time in advance, when conditions are becoming rather dangerous and strained?

Mr. McCaleb. Of course you know. Here is the point, if you really get a system you will not arrive at a dangerous point. If you give us a system it ought to equalize this demand and make it so that you never come to the point where you will reach a crisis.

Senator Reed. I am speaking about the one question of the delay in getting help, and I will put it in this form, because I want to direct your mind absolutely to it. You are going along under the present system. You get your help right along from other banks when you need it. Now, there comes a period when the banks are coming pretty close to the line, and you know it, and you know it some days in advance. Would you not have sufficient notice so that you could act and send your collateral to some Government agent, and even if it took four or five days to get help, would not that help come in time?

Mr. McCaleb. Certainly; but here is the point you are missing: Supose there were 10,000 banks, members of one central reserve bank. Suppose a great many of them, if not all of them, should send in within 30 days rediscounts. What sort of a force would you be required to maintain in order to handle the business?

Senator Reed. You mean that the 10,000 banks might all come in at once?

Mr. McCaleb. Not all at once, but there would be such a large number coming along that you would not have people enough to give prompt service.

Senator Reed. Let me see if that could not be avoided; that is, if your idea in regard to it is not—I do not like to say "exaggerated," but you will not misunderstand me?

Mr. McCaleb. No.

Senator Reed. Is it not a fact, now, that when you get these strained conditions that relief given—substantial relief—to any part of the country almost instantly works a relief for the entire banking system?

Mr. McCaleb. That is true; that is the way it should be.

Senator Reed. So that if half a dozen Chicago or New York banks—I just use them for purposes of illustration—half a dozen Chicago, New York, or St. Louis banks came in there and wanted help and they were given relief, although it did not reach you directly, the moment they were relieved you would be relieved also?

Mr. McCaleb. Exactly; it works right on down.

Senator Reed. So it is not such a complicated thing to give the relief?

Mr. McCaleb. I am in favor of the central bank. Then, after establishing a central bank, if you found you needed branches, then you could organize them as rapidly as you found you needed them.

Senator Reed. When I started in to these hearings I had the impression that possibly the relief had to be granted in New Orleans in order to give relief to New Orleans, and that relief would have to be granted to Nashville, directly I mean, in order to help Nashville. But it has been intimated, and that is what I am directing your mind to, that relief given at one or two central points, of a substantial character, would immediately, if those banks could aid their correspondents, and in turn their correspondents aid the country banks, so that in two or three days' time the whole situation would be relieved. Do you think that is true?

Mr. McCaleb. Yes; and your relief would have to come out of the large centers, and then it ramifies through all the various auxiliary ones. It would do no good to relieve one smaller section. For instance, in Texas at the height of the cotton season you would have to send a lot of money, over 100 million.

Senator Reed. But you have been getting that from another bank.

Mr. McCaleb. But we are going to look primarily to this bank if we are going to complete the system. We have 25,000 bankers, and they live like hermits, and, like a hermit, this bank hunts the nearest hole he can find to get away from these insects who commence to pester him. Give us a colony of busy bees, and then you will lay up stores. There you would have harmony, and you have the system.

Senator Reed. Your figure is a very terse one, but, like most figures of speech, they do not always apply. You do all work close to your hole to-day; that is, you work there in attending to your bank; but as a matter of fact, and as a part of your business, and because it pays you to do it, you have correspondents in many places.

Mr. McCaleb. You have not been a banker, have you?

Senator Reed. Oh, no; I borrow money.

Mr. McCaleb. When you have been in the banking business 10 years you will know something more about it. You will know how close you have got to stick on the job, watching your resources. You give me a real system of banking, such as we have in many countries—in Mexico or Canada, for instance—give us such a system as they have got there and, confound it, I will go and play golf or go fishing once in a while.

Senator Reed. I say you do stay by your bank. Of course you have to do that. I think you will always have to do that. I am not in favor of any system that would not require you to do it, because I think when you leave your bank it might get into trouble after a while. But you do keep deposits in New York, do you not?

Mr. McCaleb. Yes, sir.

Senator Reed. For business reasons?

Mr. McCaleb. Yes, sir.

Senator Reed. And get accommodations for business reasons?

Mr. McCaleb. Yes, sir.

Senator Reed. Do you keep them in New Orleans?

Mr. McCaleb. Yes, sir.

Senator REED. For business reasons; because you make money out of it, do you not?

Mr. McCALEB. Yes, sir; that is one of the reasons.

Senator REED. You keep them in other places, and other people keep them with you for the same reason. That system will exist, and continue to exist?

Mr. McCALEB. Yes, sir.

Senator REED. And that system you will have to draw on in any event, unless we get in awful trouble?

Mr. McCALEB. That is true, but their ability to take care of me will be diminished if this system goes into effect.

Senator REED. Do you think their ability to help you would be diminished?

Mr. McCALEB. Yes, sir; I think their ability to help me would be diminished.

Senator REED. Would that not be a dangerous thing?

Mr. McCALEB. No; I do not think so; not necessarily.

This must be a primary system. We have got to look to this system for our system, and to the other as a collateral or supplemental system. That is my view of it.

Senator REED. I have not been a banker, but my opinion is that the great tides of business would go right on.

Mr. McCALEB. They would go on, but I would not have anything to do with a system that would have anything to do with them. The thing about them is that while their deposits may be somewat diminished their power to earn money would be increased, and it would be simpler to do this under the scheme proposed.

There are only one or two things I am going to say further. I think it is a mistake to require a 20 per cent investment.

Senator NELSON. Ten per cent, you mean?

Mr. McCALEB. Ten per cent ought to be a maximum. If you put an additional clause in there, calling for 10 per cent additional, it always put something up in the way. I do not like that 10 per cent.

Senator NELSON. Would you leave that as it is, 5 per cent at once and 5 per cent in 60 days?

Mr. McCALEB. Yes.

Senator NELSON. And stop there?

Mr. McCALEB. I would.

Senator POMERENE. Assuming that the 10 per cent might not raise sufficient funds for the regional banks, what would you say as to the wisdom of opening the subscriptions to the public and permitting them to have a part of the stock?

Mr. McCALEB. I do not see why that should not be done.

Senator POMERENE. You would not permit those subscribers to do business with that bank?

Mr. McCALEB. No; I would not. In other words, it becomes an investment form.

Senator POMERENE. As a banker's bank?

Mr. McCALEB. Precisely; and merely let it become an investment form, merely for the outsider who wants to put his money into it.

Senator NELSON. You mean then that if the 10 per cent should prove insufficient you would let the public come in and subject them to the same limitations as the bankers?

Mr. McCaleb. Precisely; and not permit them to do business with the bank at all; is merely an investment proposition.

Senator Pomerene. The same as a Government bond?

Mr. McCaleb. Yes; if they are willing to go into it, and I dare say a great many of them would do it. I hope you may change the 5 per cent provision and make it 6 per cent. That sticks in the craw of American bankers.

Senator Nelson. What have you to say about the 5 per cent on the stock; do you think that is a proper amount?

Mr. McCaleb. I was just saying that I think it ought to be 6.

Senator Nelson. You think it ought to be 6?

Mr. McCaleb. Yes. There is another point which I wish to discuss, which I heard raised here to-day, and that is in regard to the paring of items; in other words, eliminating the exchange. I want to say, I think that is a most admirable thing, and on that point I have to disagree with some of my good friends here. It is a tremendous waste. You run across this exchange at every turn. The country bankers are a species of brigands in many things. When they do remit they always soak you to the limit, and at the rate of one-fourth of 1 per cent in most places. I think that provision is a most admirable provision to go in. They are complaining that you are going to curtail their profits thereby. Their profits will be much more than offset by their having business with this association when it comes to the multitude of forms of earning money.

Senator Hitchcock. This does not provide for acceptances by country bankers; it only provides for acceptances by banks handling exports and imports—foreign exchange.

Mr. McCaleb. But there are various ways in which they can earn money.

Senator Hitchcock. Every country banker has claimed that his losses would be enormous from this provision, and that he would have to reduce his dividends.

Mr. McCaleb. I think they are mistaken. I think the earnings would come up from various other sources.

Senator Reed. From what sources?

Mr. McCaleb. Most of them could loan from 25 to 50 per cent more money than they are loaning.

Senator Hitchcock. Would that produce an inflation of credit?

Mr. McCaleb. Not necessarily.

Senator Hitchcock. We are trying to get from witnesses whether this would produce an inflation of credit.

Mr. McCaleb. It does not follow that because you are increasing your loans, you are inflating.

Senator Hitchcock. The increase of loans by 25 per cent would not result in inflation?

Mr. McCaleb. Not necessarily, because we are borrowing a great deal of money, for instance, in Texas, and we are borrowing more or less outside of the State.

Senator Nelson. A big cotton crop in your State inflates your credit more than a poor crop, does it not?

Mr. McCaleb. That is certainly true so far as balances are concerned.

Senator Hitchcock. What is the law of Texas in regard to reserves kept by State banks?

Mr. McCaleb. Twenty-five per cent.

Senator Reed. You say that is a bad law?

Mr. McCaleb. I think it is a pernicious law because it is a hard reserve to maintain. In Texas we have over 800 State banks.

Senator Reed. Are you allowed to invade your reserves in Texas?

Mr. McCaleb. Not until we get up to 25 per cent. I am supposed to sit still until somebody comes in and pays his account.

Senator Reed. So that if your bank was to fail your customers would get at the rate of 25 cents on the dollar?

Mr. McCaleb. Yes.

Senator Reed. Now, may I direct your thought to another matter? One thing that makes runs upon banks or what we call panics, or a run upon a bank, is the fear of the customer that there is not enough money there to pay all the customers and hence he wants to get his money out first. That is the real reason, is it not?

Mr. McCaleb. Yes; that is one of the reasons.

Senator Reed. And those runs generally are very disastrous, not only to the bank, but disastrous to the customers of the bank, because some of them get their money and then the bank goes into liquidation and there is a lot of money lost in that process. That is true, is it not?

Mr. McCaleb. Yes; very often.

Senator Reed. If the customers of the bank knew that their money was safe, you would not have these runs?

Mr. McCaleb. I think that is psychologically true.

Senator Reed. That seems like a childish question to ask, but it is the premise for what I am coming to. If these banks all go into a common system, say 1 central bank or 12 regional banks, or any similar system, they would have a common interest then in preserving the assets of each member bank, would they not?

Mr. McCaleb. I think it would strengthen the fellow feeling.

Senator Reed. Do they not have an actual financial interest?

Mr. McCaleb. Certainly they have.

Senator Reed. Because a member bank has brought up his securities, has obtained rediscounts, and is liable upon those rediscounts, if it fails the central bank may lose some money. That is true, is it not?

Mr. McCaleb. Yes.

Senator Reed. Now, do you not think the banks would be willing to take the profits that might be earned in these regional banks and which was a return upon their capital and set it aside in a fund to be used as a guaranty fund and to make good losses that had occurred to the system?

Mr. McCaleb. You know that is an unfair question to ask me, because we borrow under the guaranty law in Texas. We have a most excellent one there which is in operation now.

Senator Nelson. Guaranty of depositors?

Mr. McCaleb. Yes. It has been in operation six or seven years, and since it has been in operation not a depositor has lost a dollar.

Senator Nelson. Do you not think it would be a good idea?

Mr. McCaleb. I think it would, but that is a very direct question, and I am inclined to favor that, and for that reason I have come to be more or less of an advocate of the guaranty law. That will con-

stitute a very small tax upon one bank or the other year in and year out.

Senator NELSON. Is your Texas law an absolute guaranty, or does it simply provide a fund for the protection of depositors?

Mr. McCALEB. We have a fund.

Senator NELSON. Your State provides a fund and out of that this amount is paid, but otherwise it is not a guaranty?

Mr. McCALEB. No; it is not a State guaranty at all.

Senator REED. I am not talking about an absolute guaranty law; I am talking about the proposition that if your banks all came into a general system, having a common interest in that system to the extent of at least 10 per cent of their capital stock, whether it is not possible to create a fund to be held by the Government so that if a bank went into involuntary liquidation, out of that fund the depositor could immediately be protected, that would stop your runs, would it not?

Mr. McCALEB. I would approve of that; that is all right. I believe it would be a panacea if we could have that guaranty along with the system you are proposing to give us and that you will give us, I am sure. You will see the United States blossom as it has never blossomed before.

Senator McLEAN. That is the system in Canada?

Mr. McCALEB. Yes; whereby all outstanding notes are guaranteed.

Senator BRISTOW. It is similar in principle to the insurance principle. It is insuring against loss to the man who deposits money the same as the insurance company insures against loss on account of fire?

Mr. McCALEB. That is true.

Senator NELSON. And it is only the fund and not the Government that is responsible?

Mr. McCALEB. That is true.

Senator REED. Has that made for reckless banking in your State?

Mr. McCALEB. It has not. In six or seven years it has cost my bank, I think, practically nothing. Our interest in the guaranty fund is about $10,000. If I were to liquidate my bank, that fund would be returned to me.

It all depends on the question of supervision. We do not allow banks to open in towns where they can not make a reasonable dividend. We do not allow banks to open where there are not responsible men behind them and where there is not a banker in charge of the bank, and thus far our failures have been very few and nobody has suffered a loss. If this system were put into effect with a rigid supervision, and if you would not permit the organization of banks by people not competent to run them, it would be a success.

Senator BRISTOW. The national banks are not permitted to join your guaranty association?

Mr. McCALEB. Yes; they are.

Senator NELSON. Do they come in?

Mr. McCALEB. I think not to a great extent.

Senator BRISTOW. They are permitted by the State law, not by the comptroller?

Mr. McCALEB. Yes.

Senator BRISTOW. That is the same as the Kansas law.

Mr. McCALEB. We have a dual form in Texas. You may either participate in a guaranty fund or you can make one between yourselves, simply doubling your liability.

Senator BRISTOW. Have the national banks in Texas established an insurance company for the guaranty of their depositors?

Mr. McCALEB. They have not. I think possibly a few banks have taken out surty policies. I am not positive of that, even.

Senator BRISTOW. The national banks in our State have established an insurance company, and they insure their depositors in a private company.

Mr. McCALEB. I know that is true.

Senator BRISTOW. The State banks are insured under the State guaranty system?

Mr. McCALEB. I remember that. The State banks in Texas have outstripped the national banks in the last two years, and I attribute that to the guaranty feature.

Senator BRISTOW. Do you rediscount much of your paper?

Mr. McCALEB. We do in the summer, beginning in June and up to the beginning of the movement of cotton.

Senator BRISTOW. To what amount?

Mr. McCALEB. We have this year, I think, about $300,000 or $400,000.

Senator NELSON. Is it what I would call a straight discount; that is, you simply discount the notes, or do you give your own notes and put up your commercial paper as collateral?

Mr. McCALEB. We do two or three things. We give our directors' notes.

Senator POMERENE. You say "we"; you are speaking of your bank?

Mr. McCALEB. My own bank.

Senator NELSON. You know what I mean by straight discount?

Mr. McCALEB. Yes. In some cases we will give our directors' notes and then we simply deposit collateral.

Senator NELSON. You discount your guaranty; you indorse it, and you discount that indorsement, and then you give your own notes and put up your commercial paper as collateral.

Mr. McCALEB. We give our directors' notes without any collateral at all.

Senator BRISTOW. What class of paper do you rediscount?

Mr. McCALEB. You mean, what kind we take for our correspondents?

Senator BRISTOW. What class of paper?

Mr. McCALEB. A great variety of paper.

Senator BRISTOW. How long did the paper run, as a rule?

Mr. McCALEB. I think 90 days, maturing under 90 days.

Senator BRISTOW. Maturing under 90 days?

Mr. McCALEB. Yes.

Senator NELSON. Do you make many real estate loans?

Mr. McCALEB. Except in our savings banks. A man may make a temporary real estate loan in our commercial department.

Senator NELSON. Can you make those under the Texas law—farmers' loans?

Mr. McCALEB. Farmers' loans——

Senator NELSON. No limitation on them?

Mr. McCALEB. Fifty per cent of valuation.

Senator NELSON. Any limitation as to your deposits or capital?

Mr. McCaleb. Oh, yes. Our maximum loan is 25 per cent of the capital stock.

Senator Nelson. Any real estate loans?

Mr. McCaleb. Yes.

Senator Nelson. You have a pretty good law in Texas.

Mr. McCaleb. That is a very good State banking law. I think it is one of the very best.

Senator Bristow. Do you have a great many customers who renew their notes continually—I mean the 90-day notes?

Mr. McCaleb. We have a good many who do renew from time to time.

Senator Bristow. What per cent of your business—that is, of your notes—are paid when they are due without renewing?

Mr. McCaleb. That is a hard thing to estimate offhand. I think probably not more than—well, it would run somewhere between 25 and 50 per cent.

Senator Bristow. That is, you have customers who renew every 90 days, and they do not expect to pay at the end of 90 days?

Mr. McCaleb. I dare say there are some who have that in their own minds. I positively have never told a client that he could have an extension when his time was up. I have not followed that rule.

Senator Bristow. Do you not think that is rather unusual?

Mr. McCaleb. I do not know whether it is or not. It is the rule in our bank.

Senator Bristow. Suppose that the Federal Government had an agency in various cities of the country and that the Federal Government, through the comptroller's office, would issue this currency direct to the individual banks instead of to these regional reserve banks or through the central reserve banks, do you think that could be practically worked out so that every bank could take its assets and go to an agent of the Government located near to it and get relief when they needed it?

Senator Nelson. Get currency.

Mr. McCaleb. I think that could be done, and if we could not have a better thing let us have that. You give us a system and we will get along all right.

Senator Nelson. That is putting the Government into the banking business.

Mr. McCaleb. That is only a subterfuge. You could pursue the plan you are now pursuing in the Treasury Department, making loans to the various——

Senator Reed (interposing). Why do you say it would be a subterfuge?

Mr. McCaleb. I do not think that is what we want.

Senator Hitchcock. The present practice provides no elasticity for currency; it is simply advancing loans.

Mr. McCaleb. It is a subterfuge. It is a temporary expedient, but it gives us some relief.

Senator Hitchcock. It might be made permanent. Suppose the Treasury Department were equipped to issue additional currency to the individual banks, just as it is proposed to have the Government issue additional currency to these reserve banks. Now, the Government would be performing the same function in each case, but instead of doing it through an intermediate body it would be doing it directly

through the individual banks and to the community which needed the additional currency.

Mr. McCaleb. I think it would not be anything like as effective.

Senator Hitchcock. Will you explain why you do not think it would be so effective?

Mr. McCaleb. Because, in the first place, I think it would multiply the troubles of the Department of the Treasury, or the comptroller's department, tremendously to attempt to do that thing. In the second place, I think it is the function primarily of a banking institution to do the banking business and not of the Government.

Senator Hitchcock. The purpose of this is to supply additional currency, not for the Government to engage in the banking business.

Mr. McCaleb. To a certain extent it is the same thing. You are breaking into the general scheme and to that extent it is erroneous.

Senator Hitchcock. The American banks have never supplied additional currency. That is not breaking into any banking practice.

Mr. McCaleb. I know that is true——

Senator Hitchcock (interposing). I am talking now about an elastic currency to be provided from time to time.

Mr. McCaleb. I know, and that is very good; and, as I said before, if you can not do anything better, let us have something that we can operate along that line.

Senator Hitchcock. Your chief objection, as I understand, is that it would multiply the troubles of the Secretary of the Treasury?

Mr. McCaleb. No; it is not that; it is not scientific.

Senator Hitchcock. Will you kindly explain why you think it is not scientific?

Mr. McCaleb. Because you are debating a banking and currency measure here which shall apply to the whole country as a nation, and it is supposed to be operative 24 hours out of 24 hours and not to take care of an emergency.

Senator Hitchcock. Suppose we provide that it is to operate 24 hours out of every 24 hours, and day after day, and we establish 50 subtreasuries throughout the country, or 41 in addition to what we have. Suppose those subtreasuries are located in the banking centers of the country and properly equipped to do the business of a subtreasury. Suppose any one of the 7,000 national banks be given the right to present at the subtreasury its securities and get 75 per cent of its capital in currency directly from the subtreasury.

Now, that bank is examined twice a year by the agents of the Treasury or the agents of the comptroller. He has gone over the paper from time to time. That paper is presented—possibly some United States bonds, possibly State bonds or municipal bonds, possibly a mixture of State bonds and commercial paper. That paper is presented. What scientific objection is there to having the Government of the United States advance its currency over to the bank that needed it under those conditions, when the Government is constantly examining that bank under present conditions?

Mr. McCaleb. The scientific objection is that it is simply a subterfuge.

Senator Hitchcock. Will you kindlv explain what you mean by saying it is a subterfuge?

Mr. McCaleb. You are simply devising a thing for a temporary purpose, not for constant use.

Senator Hitchcock. No; not for a temporary purpose. We propose to have it operative at any hour of the business day and at any month of the year; that a bank can go there and get that currency for 30 days, 60 days, 90 days, 4 months, or even 5 months.

Mr. McCaleb. That is true, but at the same time there are other functions of banking outside of borrowing money.

Senator Hitchcock. We would not undertake to do those things.

Mr. McCaleb. That is, you leave the system in the same condition it is in to-day; you have no system, and the national banks all know it. Give us a system which you can harmonize, a system under which the banks will cooperate with one another.

Senator Nelson. The Government would have to pass upon all that commercial paper offered for discount.

Mr. McCaleb. Precisely, and be responsible for it.

Senator Hitchcock. The Government in such a case would be the custodian of the paper while it is in its possession in security, but the Government has never failed as a custodian, and it is considered perfectly safe as a custodian, and a part of that plan is to give the Government a first lien on all the assets of the bank. Now, the Government knows more about the banks than any other banker can know, because it has the privilege of examining them at any time. If you are running a national bank, you know that the examiners come to you at least twice a year, and in addition to that you make statements to the Treasury four times a year, so that your business is under the constant inspection of the Treasury Department.

Now, being so under the constant inspection of the Treasury Department, can you imagine any power more competent to make temporary advances of currency than that same Treasury Department?

Mr. McCaleb. I admit the point you make; it is all right, but that is getting away from the question. The question is that you are giving us a system that will perform functions that are banking functions.

Senator Reed. But that is not proposed in any bill before Congress.

Mr. McCaleb. The present bill proposes a good many other things than this.

Senator Reed. The powers of these regional banks are very far from being absolute powers. There is the supervision by the Federal board over them. They do not do a general business with the public; they only deal with banks.

Mr. McCaleb. That is all true, but the bill embodies a great many other functions than this mere function of issuing currency against a collateral in case of emergency.

Senator Reed. What do they do in addition to that, except to lend back to the banks their own money, or to lend the banks Government money?

Mr. McCaleb. There are a number of different things. It broadens the whole field of banking activities.

Senator REED. It takes care of exchanges and things of that kind.

Senator NELSON. This allows the regional banks to deal in foreign exchange.

Senator REED. Oh, yes; but that is not important.

Mr. McCALEB. There are a great number of things this bill contemplates that you would not get under the scheme mentioned by your chairman. It would provide, in a way, something as a reservoir from which you could draw currency in case of necessity. That means a great deal, indeed, but I say, gentlemen, do not be blinded by a single proposition; give us the bigger thing.

Senator NELSON. Here is another thing, if you gentlemen will allow me. We all concede this paper ought to be redeemable ultimately in gold. Now, if the Government were to assums the duty of issuing the currency the Government would have to keep a gold reserve, would it not?

Mr. McCALEB. Yes; it would.

Senator NELSON. Under this bill it contemplates a reserve of 33⅓ per cent. Now, the banks issuing the currency ought to provide that gold, ought they not?

Mr. McCALEB. I think so.

Senator NELSON. And bear the whole burden and not throw it on the Government?

Mr. McCALEB. I think that is true; that is my view precisely. I do not think the Government has any business acting upon it.

Senator NELSON. If the Government went into the business of issuing that paper currency, no matter under what circumstances—if it issued a currency redeemable in gold, the Government would have to make a provision for securing the gold?

Mr. McCALEB. Certainly, and besides that you would have to maintain quite a large reserve in your Treasury.

Senator NELSON. It would have to bear that burden.

Mr. McCALEB. There is no question about that.

Senator REED. You say the Government would have to bear that burden. You mean the Government would have to stand back of this?

Mr. McCALEB. Yes.

Senator REED. Does not the Government have to stand back of this money issued by these 12 regional banks?

Mr. McCALEB. That is my objection exactly.

Senator REED. You think the money ought to be issued without the Government standing back of it?

Mr. McCALEB. I do.

Senator REED. Well, I am not in favor of issuing a dollar of currency in this country that the Government is not back of.

Mr. McCALEB. Currency is issued by banks in a number of different nations where the country does not stand back of it, and it works very well.

Senator REED. And there are a good many nations, too, where you do not have the right of trial by jury.

Mr. McCALEB. That is also true, but a good many nations have better justice where they do not have it.

Senator REED. That is an opinion that I am astonished that any man would offer in this country.

Mr. McCaleb. That is merely an opinion of mine; I may be wrong about it, Senator.

Senator Reed. I think I ought not, perhaps, to have made that remark, but I want to say to you that when the time comes that you do not have the right of trial by jury you might as well go and burn the American flag and quit calling yourself a free man, because that is all there is of liberty in this country, with all its defects.

Senator Pomerene. I noticed your statement a little while ago to the effect that you never made loans exceeding three months.

Mr. McCaleb. No; not never——

Senator Pomerene (interposing). Perhaps I expressed that too broadly. You said that was your rule?

Mr. McCaleb. Yes; 90 per cent, probably.

Senator Pomerene. Now, under the provisions of this bill, when it comes to rediscounting, the regional banks are authorized to rediscount 90-day paper. Objection was made here by bankers from certain localities to the effect that they were always in debt, or nearly always in debt, or issuing six months' paper or nine months' paper; now, looking at it from the standpoint of a banker, do you think it would seriously interfere with their business if the general policy of the law should require them to issue three months' paper instead of six months' paper?

Mr. McCaleb. I do not think it would; it is simply a matter of renewal. If a man came in and said, "I want this much money for six months," the bank would say, "I may have to use this paper, and in order to bring it within the standard required I ask you to let me have it in two pieces." I think it means simply a little more trouble, as far as the bank is concerned, but I do not see any objection to his being able to make the paper conform to the requirements of the measure.

Senator Pomerene. As a general proposition, you do not think it would interfere with the business of the locality?

Mr. McCaleb. No. You mean the operation of the system?

Senator Pomerene. Yes.

Mr. McCaleb. No; I think, on the contrary, it would improve it.

Senator Hitchcock. Suppose you discounted a 90-day note of that sort through the reserve bank by representing to the bank it was 90-day paper and would be paid at maturity?

Mr. McCaleb. I would not make any such representation.

Senator Pomerene. But the very idea of commercial paper is that it will be paid out of the proceeds of the transaction for which it was given.

Mr. McCaleb. That paper in no event could take the classification of commercial paper. I should never recommend it, because most banks that are doing business in any volume have paper that would take that classification.

Senator Pomerene. You would not recommend, if the bill permits only the use of 90-day paper, that a bank should discount at a reserve bank 90-day paper which it has already agreed to extend for another 90 days?

Mr. McCaleb. Certainly, if the banker were required to make a representation that it was 90-day paper.

Senator Pomerene. That is what it means, is it not?

Mr. McCaleb. The banker would not use that particular paper.

Senator Pomerene. That is not prime paper?

Mr. McCaleb. I would not so regard it.

Senator Hitchcock. Mr. McCaleb, how large a city is San Antonio?

Mr. McCaleb. Oh, it has a population of about 115,000.

Senator Hitchcock. So that the paper you discount there is really in a large community? It is not an agricultural community?

Mr. McCaleb. No; it is not agricultural; it is more of a commercial community.

Senator Hitchcock. Have you a State bankers' association in Texas?

Mr. McCaleb. Yes; we have.

Senator Hitchcock. Is it composed of both national and State banks?

Mr. McCaleb. Yes, sir; it is.

Senator Hitchcock. Has it had a meeting to consider this bill?

Mr. McCaleb. Yes; it had a called meeting and there were about 100 bankers present.

Senator Nelson. Out of how many?

Mr. McCaleb. Out of about 1,200.

Senator Hitchcock. When was this meeting?

Mr. McCaleb. It was called in Dallas about three weeks ago, I think, and there were very few representative bankers there. I happened to be the only one from San Antonio.

Senator Hitchcock. What was the result of that meeting?

Mr. McCaleb. The result was that the convention indorsed the strictures of the Chicago conference.

Senator Hitchcock. Was there any debate?

Mr. McCaleb. There was some debate, yes; but very little.

Senator Hitchcock. How was the vote?

Mr. McCaleb. It was practically unanimous. The point is this, gentlemen——

Senator Reed (interposing). I did not hear your statement about what it was they indorsed.

Mr. McCaleb. The strictures made by the bankers at their conference at Chicago.

I said to those bankers, "How many of you gentlemen have read this measure?" There were not a half dozen of the 100 that were present that had read the bill; and I am free to say to you that I do not think there were a half dozen competent to judge as to the merits of the bill. A great many bankers are very ordinary mortals; they are not lettered. They have not studied economics themselves, and what they know is the little routine of their banking rules. That is getting down to the milk in the coconut.

These men got up there and voted because they had read some adverse criticisms here and there coming from certain sources, and they voted against it. It was simply because it was novel to them; it was a little cloud on the horizon, but after all it was a cloud and they considered, of course, that the best thing to do about it was to put up their umbrellas.

Senator Hitchcock. When did you say this meeting was held?

Mr. McCaleb. About three weeks ago.

Senator Hitchcock. Who called the meeting.

Mr. McCaleb. It was called by the president of the association.

Senator Hitchcock. Do you know how he came to call it?

Mr. McCaleb. Well, he came back from Chicago full of enthusiasm, of course, and I think that he and the secretary, and possibly the executive committee, authorized the calling of the meeting.

Senator Hitchcock. Is he a city banker?

Mr. McCaleb. He is a city banker; yes.

Senator Hitchcock. In what city?

Mr. McCaleb. In Dallas. The thing was so carefully censored in the press that not one word in praise of this bill got into it.

Senator Hitchcock. Is the press against the bill down there?

Mr. McCaleb. I think, in this particular city, it was for the time being.

Senator Hitchcock. This was three weeks ago?

Mr. McCaleb. Yes.

Senator Hitchcock. You say the bankers did not understand the bill?

Mr. McCaleb. No; they did not.

Senator Hitchcock. Do you think Congress ought to pass a measure that the people whom it affects do not understand?

Mr. McCaleb. Mr. Chairman, if you wait to pass a bill until you can pass one that everybody understands, you will never pass one. And you will not find the bankers, as a class, very superior to other classes of people.

Senator Hitchcock. And you do not understand the bill?

Mr. McCaleb. I do not know whether I do or not, Senator.

Senator Hitchcock. We do not know whether we do.

Mr. McCaleb. I do not want to flatter myself.

Senator Nelson. We are not clear whether we understand it.

Senator Reed. Do you think you ought to come here and ask this committee to pass a bill which you do not feel reasonably confident you understand?

Mr. McCaleb. Well, I think I understand it, Senator; I might put it that way.

Senator Hitchcock. You are better off than the rest of the bankers in Texas?

Mr. McCaleb. Well, I do not know, Senator; you are placing me in an embarrassing position. I might say, however, since you have drawn me out this way, that I have had possibly a little better opportunity to go into these things and understand them than some bankers. I happen to have devoted some years to the study of economics and finance, and I happen to have my bachelor's, master's, and doctor's degrees from reputable institutions of the country, and I think I can——

Senator Hitchcock (interposing). Which of the European systems do you consider the better?

Mr. McCaleb. I think, possibly, the Scotch system.

Senator Hitchcock. Has this plan any resemblance to the Scotch system?

Mr. McCaleb. No; it has not; but the Scotch system would not be well adapted for our conditions here.

Senator Nelson. Is there much difference between that and the Canadian system?

Mr. McCaleb. The Canadian system is patterned largely after it. If we could have a system as good as the Canadian system I would be quite satisfied.

Senator HITCHCOCK. Is it not a fact that the notes of the Scotch bank are at a discount 50 miles over the line from Scotland?

Mr. McCALEB. That may be true——

Senator HITCHCOCK (interposing). It is a matter of fact. As soon as you cross the Scotch line you will find that those notes are at a discount.

Mr. McCALEB. You will find United States notes at a discount, too.

Senator HITCHCOCK. No; they are practically at par.

Mr. McCALEB. They are all discounted, Senator—the notes of every country. When you go into a foreign country they are always subjected to a discount.

Senator HITCHCOCK. But that is just about the rate of exchange. The Scotch notes are——

Mr. McCALEB (interposing). Below the point of exchange?

Senator HITCHCOCK. I mean to say that if you offer them in the transaction of business even 25 miles across the Scotch border they are at a discount.

Mr. McCALEB. Why is that true?

Senator HITCHCOCK. I am asking you, since you say you consider the Scotch system the best.

Mr. McCALEB. I do not say I understand the Scotch system.

Senator REED. You said you thought it was the best.

Mr. McCALEB. I have read the Scotch banking laws and know something about them, but it is many years, Senator, since I have gone into the details.

Senator REED. Do I understand that you think the Canadian system is good?

Mr. McCALEB. I think it is a very excellent system.

Senator REED. What is the Canadian system, as you understand, in the outline?

Mr. McCALEB. Now, Senator, I think that is unfair to put that question to me, because I did not get up here to discuss these various banking systems.

Senator REED. I am not trying to be unfair, and do not want you to think anybody here wants to be unfair or technical. I want you to understand my standpoint. I am looking for light, and I am asking these questions because I want it. I have understood that the Canadian banking system was a system of very large banks with numerous branches.

Mr. McCALEB. That is true.

Senator REED. Would you consider that a wise thing to have in our country?

Mr. McCALEB. I do not see why it would not operate here, but we are not built for it. You are trying to build on ground that you have already preempted. The thing to do is to go ahead and build and fit into your new system these particular banks that you already have.

Senator REED. I think so, too. You and I agree exactly on that. In other words, if the plumbing is a little out of order in a house, in order to remedy it you do not want to begin by dynamiting the house?

Mr. McCALEB. Exactly.

Senator REED. You want to disturb it as little as possible, but still get a really effective remedy.

Mr. McCaleb. That is really the only logical way to proceed.

Senator Reed. So we can not very well discuss European and Canadian banking systems, because they are all different systems.

Mr. McCaleb. You want to put this into effect with as little disturbance as possible.

Senator Reed. Taking our banking system as a whole and admitting it has some defects, do you regard it, as it has been frequently characterized, as the poorest banking system in the world, or do you regard it as a fairly good banking system that needs some remedies?

Mr. McCaleb. It has been a fairly good system or it would not have lasted as long as it has, but it certainly does need remedying.

Senator Hitchcock. I suppose we ought to go on with the next witness. Mr. Frenzel desires 15 minutes.

STATEMENT OF JOHN P. FRENZEL—Resumed.

Mr. Frenzel. I think I asked the privilege of 20 minutes just to have leeway; that was all.

Senator Hitchcock. We have plenty of time.

Mr. Frenzel. I think when I left off I was speaking about the reduction of the regional banks from the number proposed by the bill, 12, to a smaller number. Then I tried to go on and explain that the trouble in 1907 was not that there was not enough liquid circulating medium in the country to take care of the situation, but there was no means of safely distributing it in such a way that it might perform all of its functions in the time that the excitement continued.

If you recollect, I spoke about the situation in Indianapolis and the amount of reserve—as it was called—that the banks had there when the trouble began in the latter part of October, and the amount they had left after the seven weeks of operation under the clearing-house rule.

Applying that to this provision in the bill, it strikes me that, as you have it, these regional reserve banks are going to be sectional and not sufficiently national to perform the functions that you intend they shall perform promptly, and, so to speak, automatically, as the necessities for accommodations grow and accrue.

The question was put to me, you will remember, if 5 would not be better than 12, and if 3 would not be better than 5, and, finally, if 1 would not be best of all. I subscribed to that and said yes. One would be very much the best, and in nearly all of the discussion of recent years that I have heard and read about with reference to a change of our system or the introduction of a new system, the preface has always been submitted that, of course, an ideal system would call for a central bank: but let us not talk about that, because we can not have it.

Senator Nelson. What makes you think we can not?

Mr. Frenzel. I am just quoting; that is what I hear—"Shades of Gen. Jackson." and other things.

Senator Nelson. That was a private bank: that was not a banker's bank.

Mr. Frenzel. It is referred to in that sort of way.

Senator Nelson. It was not controlled by the Government.

Senator Bristow. And it got into politics.

Mr. FRENZEL. Yes; however that may be, I think I heard Senator Aldrich himself, in his exposition of the measure which he took so much time to get up, speak in that way, that the desideratum was a central bank, but that condition here, chiefly political, prevented that sort of thing, and that we must therefore look for some other system.

It seems to me that the great difference of judgment and opinion in reaching what would be a good substitute for that is quite natural, because when you depart from something that is ideal and right it looks to me like it might be merely a matter of opinion of 1 man, or 10 men, or 100 men, as to what system might be right, and they would very likely, groping about, propose a whole lot of systems.

You remember how it was before we got down to the square-out declaration for the gold standard here, and all the various stages we went through of expedients and expedients, until we got down to the place where we said that really one standard is the simpler thing. So we are groping about in the dark—not in the dark altogether, but we are groping about—and there are many opinions as to what is a good substitute for what is popularly believed to be an ideal system.

Now, you take 12 regional banks and distribute them over the country. They will be conducted primarily with reference to the business of their particular regions, and that is the business they will become familiar with, and they will not be so familiar with the business of some other region; hence, they will not be in such sympathy with it. You have recognized that in this bill.

I have not heard it dwelt upon, but you recognize it in this bill, because you permit this board to fix a rate for rediscounts, and you know that will be not less than 1 and up as high as 3 per cent above what the prevailing rate is in that region.

But if a system of regional banks amounts to anything at all it seems to me it must be a system that would include the equalizing of rates. It must be a system of equalizing rates. Well, the equalization of rates comes about by the right of any one section, when it needs it, to get relief from some other section that has a surplus.

Senator NELSON. At the same rate——

Mr. FRENZEL (interposing). Simply the difference of the cost of getting the circulating medium from one place to the other.

Senator NELSON. The same rate at one place as at the other?

Mr. FRENZEL. The same at one place as at the other; that is the equalization.

Senator REED. If we had one central bank, that would necessarily be true, would it not?

Mr. FRENZEL. It would be true, because that central bank——

Senator REED. Would charge the same rate every place?

Mr. FRENZEL. Yes; it would be in such close touch with all of the regions of this country that they would not have to have somebody come from the regional bank or from the Pacific coast to spend perhaps a week explaining to the regional bank in New York or Chicago just why it is that their conditions at a particular time are thus and so. That central bank would have that information and would anticipate—except in the case of an occurrence that might come for which there are no rules to enable a man to foresee it, like an earthquake——

Senator NELSON (interposing). There would be no lobbying by one regional bank to get funds from another?

Mr. FRENZEL. Not at all.

Senator POMERENE. Would not the reserve board provided for in this bill have the particular information you are speaking of?

Mr. FRENZEL. Yes; but it is a question whether the reserve board through this arrangement would get sufficiently into the minutiæ of this business in these various communities. It would be working at too long a range. Whereas if it was a central bank with branches, or if there were fewer regional banks, they would naturally get this information and have it, and the relief for any particular necessity would almost work automatically.

Senator POMERENE. Do you not think there would be pipe lines of information to this banking head, whichever system there was?

Mr. FRENZEL. Yes; it woul be almost as close anyway—except for the physical distance of a few miles—as a large bank with its various departments in the same building.

Therefore, I think that for the prompt relief and the marshalling of assets for the general good quicker and more promptly you will secure that with a fewer number of regional banks better than under the system contemplating the greater number of regional banks. You know you have not stopped at 12; you have an elaborate provision for going further. It is doubtful whether it would be availed of, in my opinion, because the banks themselves would see that that is not good and would not apply for these regional banks. You know you have provided that if 10 banks unite and request the starting of a regional bank the Federal board has the right to grant a charter, and that shall not be repealed afterwards except by the vote of three-fourths of those banks, I think.

The whole point about that seems to me to be to arrange it in such a close way that the marshalling of the reserves will be much more effective and promptly responsive to the needs of the country at large.

Senator NELSON. You will have one great big reservoir to draw from instead of 12?

Mr. FRENZEL. Yes; and therefore the banks say it should be 5 instead of 12, or, as I said here, 4 or 3. That is one of the recommendations that we left with your secretary.

Now, we have said that we think the dividend on the stock of the reserve bank—that the rate should be changed——

Senator HITCHCOCK (interposing). The Senate meets in five minutes, Mr. Frenzel——

Mr. FRENZEL. I am practically through. We have said here that we believe the rate should be changed from five to six.

Senator POMERENE. The rate of dividend?

Mr. FRENZEL. The rate of dividend. That has been dwelt upon here and I am inclined to think——

Senator REED. I do not think that is a question you need spend much time on because that is, after all, a detail.

Mr. FRENZEL. I do not think it is important. We think that the clause in regard to savings-bank departments should be changed so that the national banks, when this law goes into effect, may immediately make application to the comptroller for the privilege of adding savings departments. We see no reason, if you are going to do

that at all, why we should have to wait a year. To a large extent that is being done now.

Senator POMERENE. Do you regard that, in national banks, as an advantage?

Mr. FRENZEL. I hope you will excuse me from answering that, but a great many banks in our State are really going into this savings-department system, and they say, "Why should you wait a year?" I really do not see any good reason at all.

Senator POMERENE. Your objection is that if it is to go in at all it should go in right away?

Mr. FRENZEL. Right away; yes.

(Thereupon, at 12 o'clock m., a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

Senator HITCHCOCK. Mr. Foote, we will hear your further statement now.

FURTHER STATEMENT OF MR. FRANCIS W. FOOTE, OF HATTIESBURG, MISS.

Mr. FOOTE. I am sorry the gentleman from Texas has left, because I specially wanted to speak with respect to this exchange proposition. I want to say something in regard to that matter which I would prefer to say in his presence.

Senator HITCHCOCK. This is not a controversy. We would like to hear any comments you would like to make.

Mr. FOOTE. His statement that the country banks were robbers and brigands was based upon the assumption of a city banker who wants to make country bankers do a lot of work for them for nothing. It is a selfish position that such bankers take without any regard whatever for the rights of country bankers or the morals of the question. He would have country banks remit at par simply that his bank might be benefited accordingly. There is one thing which the city man always loses sight of on this proposition; that is, that the country banker deposits with the city banker. In this affair the country banker is carrying his burden and the city banker's, too. Forty per cent of the deposits of city bankers are made up of the balances of country bankers.

Senator HITCHCOCK. In the reserve cities?

Mr. FOOTE. No, sir; the minor cities of the country all have tremendous country-bank balances. The gentleman from Little Rock, Ark., testified yesterday that two-thirds of his deposits were deposits of country banks. They want us to continue to deposit with them and furnish them with the sinews of war, and want to take from us the little earnings we are making by charging for making the transfers. If we had no accounts with city bankers and did nothing for them; if they were not the tremendous beneficiaries that they are at the expense of country banks, then there might be some reason for their kick and complaint about the charges country banks make for a collection service. But the statistics show that we furnish them 40 per cent of their deposits. They are not satisfied with that; they want us to remit for them free. It is purely selfishness in them.

One of the city bankers remarked gleefully to another banker that if this provision of the law was not changed it would save his bank $200,000 a year.

Senator O'GORMAN. A city banker?

Mr. FOOTE. Yes; and his bank has $2,000,000 in capital and $40,000,000 deposits, and is one of the most influential and prosperous banks in the country. The officer of that bank was in great glee over this provision by which, if it was not changed, the earnings of his bank would be increased 10 per cent. He did not intend to give the benefits of this parring to his customers. He is going to charge his customers, as he is now doing, and save the expense of collecting agents. He is going to take away from the little fellow out in the country the profits of that and keep them for himself.

Senator O'GORMAN. How would he justify to his cousomers the making of this charge, when, if this feature of the bill prevails, it would be known throughout the country that there was no expense incident to the collection?

Mr. FOOTE. They have taken care of that. They have a special provision in there stating that nothing in the act shall be construed to prevent them charging their customers for that sort of service. It states that expressly.

Senator HITCHCOCK. Taking out the cost, it is nothing more than that.

Mr. FOOTE. Yes. They would presumably provide for the cost.

Senator NELSON. They are making the charges now and profess they only cover the cost, and yet they get a revenue from it. Your banks in New York, Senator O'Gorman, charge for collecting country checks and they profess to make the charge only to cover the cost, and yet they derive a revenue from it?

Senator O'GORMAN. Yes.

Mr. FOOTE. The New York banks do not have many country checks. The business men of New York generally exact New York exchange, and there is a very, very small percentage of items paid in New York in country checks, and the same thing might pertain to Boston.

Senator O'GORMAN. This bank of which you speak, of $2,000,000 capital, is that a southern bank?

Mr. FOOTE. No; that was a western bank. They are not going to give their customers the benefit of these par facilities. They are going to continue to charge just as they now do, and attempt to put the country banker in an ugly and unfair attitude in the premises. They had it that the country banker makes these tremendous charges, when, as a matter of fact, the country banker does not. I had a letter from the president of the First National Bank of Gulfport a few days ago in which he referred to a complaint he had from a wholesale house in Chicago, in which the wholesale house derided his bank for having charged $2 for remitting to cover a $25,000 item, stating it was an outrageous charge, unheard of, and that they would not have paid a greater rate than that for a $100,000 remit. He wrote the Chicago hose that he had only charged one-tenth of 1 per cent, $1 a thousand. That is a case where the country banker remitted at one-tenth of 1 per cent to the city banker, and the city banker charges his customers one-fourth of 1 per cent.

Senator NELSON. More than twice as much.

Mr. FOOTE. Yet it reported to its customer that they charged just what the country bank charged, and the country bank was being berated and accused of making an excessive charge. If you gentlemen will get right down to the bottom of these facts you will find the country banks do not deserve the onerous things which are said about them. Country banks are not making the charges complained of. There is a certain amount being added to the charges of country banks, and it is being assumed that whatever it costs the wholesale man or manufacturer is what the country banks charge.

The gentleman from San Antonio, Tex., this morning said that these country banks were robbers and brigands; that they were holding up the business public for one-quarter of 1 per cent. This bill would never reach the class of bankers charging a quarter of 1 per cent. They are the little fellows, the little banks with a capital of $15,000, and sometimes $25,000, in very small communities, where everything is done on a very small scale. Those bankers will not come into the system, and a vast majority of them will not have sufficient capital to be admitted. They are away back in the country, where they are not caring much about what is going on, and they are not going to participate in this proposed financial reform.

Furthermore, the percentage of checks upon which banks charge one-quarter of 1 per cent is infinitesimally small. I do not know how to estimate it. I do not suppose that one one-hundredth part of the checks that go to country banks pay as much collection charges as a quarter of 1 per cent. They always take the highest charge as a standard by which to fix their arguments. The country banker feels that the country is paying these charges at last, and if we do not get them we are losing that much of what belongs to us. It is a well-known fact that in all business all costs are estimated and fixed and prices are quoted accordingly. Now, then, in the case of the shoe manufacturer of New England, the packer of Chicago, the iron maker of Pennsylvania, or anybody else, all of the cost of handling the business is included in the prices quoted, and if we do not get it we are feeling that we are not getting that much of what belongs to us. It is put in every price quoted for the benefit of the country banker, because they have anticipated the expense. The country banker works continuously for these manufacturers and wholesalers. I suppose 10 per cent of the correspondence of our bank is devoted to making credit reports to that class of people on the dealers in our territory.

Senator O'GORMAN. To whom do you render those reports?

Mr. FOOTE. To the people who are selling goods in our territory.

Senator O'GORMAN. Do you get any compensation for it?

Mr. FOOTE. Not a bit; none whatever. We are always making those reports.

Senator NELSON. On the standing of the business man in the community?

Mr. FOOTE. Yes; they keep us on that very closely. We will average, in our banks, five or six reports a day.

Then, they will send us their hard claims for collection, and they receive a great deal of attention from us, and the charges are infinitesimally small. Suppose we did charge $2.50 a thousand for

collecting a hard account, an account to which we may have given hours of attention; it would be a mere trifle for them to have to pay. A lawyer would charge them, in our country, 15 per cent for the same service. The wholesalers, so far as we know, are not complaining. We have not heard of any fight being made on this proposition by those people. They seem, at least, not to be antagonistic to us. It is just the city banker, as far as we know, the fellow like the gentleman from Texas, who seems to be out of harmony with country bankers, and seems to think they are a lot of brigands and robbers. We feel that this is purely a question between traders, and not an affair that bankers ought to differ about. We feel that if the wholesaler is willing to take a retailer's check and pay the charges for collecting it, the city banker, who is receiving our balances and the large benefits that come through the balances we carry with them, ought to keep his mouth shut.

Senator SHAFROTH. What amendment do you suggest in the bill with relation to that matter?

Mr. FOOTE. I think the provision requiring regional banks to receive checks and drafts at par for credit of member banks ought to be eliminated.

Senator SHAFROTH. What would you think of putting a maximum amount which they should charge and making it, say, one-tenth of 1 per cent?

Mr. FOOTE. You mean have the regional banks charge one-tenth of 1 per cent?

Senator SHAFROTH. Yes.

Mr. FOOTE. And pay that to the remitting banks?

Senator SHAFROTH. Yes.

Mr. FOOTE. That would be a great improvement; but I think it would be greater to eliminate it entirely.

Senator SHAFROTH. Then there is no limit at all on what can be charged. Why could not some banks charge three-quarters or one-half of 1 per cent?

Mr. FOOTE. You can collect by express a good deal cheaper than that.

Senator SHAFROTH. Then you would have a definite fixed amount?

Mr. FOOTE. That is not a good deal. If a bank charges an outrageous rate they will be sent by express.

There is another advantage, gentlemen, to the present system. There are certain cities that need bank balances, and they can get them by offering collecting facilities and supplying a great deal of capital at strategic points where it is needed. Take the gentleman from Little Rock. He said some of the deposits of his bank were the deposits of country banks, and that his bank was now borrowing $500,000. I believe he said his bank had $1,400,000 deposits at present. If he has $1,400,000 deposits now and two-thirds of that is made up of country-bank balance—that is, say, $900,000 in country-bank balances—and he is borrowing $550,000, making $1,450,000 of outside capital which that community is using, it is to the best interest of that community to demand a system that will enable it to attract the accounts of country banks. If this system is such as to force all country banks to put all their items in the regional banks they won't have any use for banks like this one at Little Rock, or banks like this one in Des Moines, or the one at Shreveport, La., or Mobile, Ala., or

the one in Denver, and, as far as that is concerned, it is going to materially reduced the usefulness of the present reserve banks, and in my opinion, it is going to cut out the bank balances at such points as Little Rock, Oklahoma City, El Paso, and Houston, Tex., Des Moines, and other places. If there is no special occasion for sending deposits to those cities the country banker is not going to send them there. He is making deposits with those cities now, largely because those cities are for collection facilities. The Little Rock banker receives these country-bank balances and lends money, presumably at 8 per cent. Whatever it costs him to collect the checks he is paying, because he values his money accordingly.

Senator WEEKS. I do not think you could draw conclusions in most cases from that Little Rock bank, do you?

Mr. FOOTE. No.

Senator WEEKS. I do not recall any bank having that amount of capital borrowing so much money, or having such a large percentage of its deposits bank deposits.

Mr. FOOTE. That is extraordinary, but I referred to it, because it is a specific case that came before the committee in my presence. The average city bank has 10 per cent country bank balances.

Senator WEEKS. It seems to me the gist of this thing, the crux of this thing is what do you want to have us do to satisfy you, and banks doing the kind of business you are doing—what do you want to have us do with the bill?

Mr. FOOTE. We want to eliminate that provision requiring regional banks to receive the items for collection.

Senator WEEKS. Suppose the regional banks receive these items for collection, how is it going to affect the commercial interests of the country, and when I say commercial interests I mean all kinds of business men? Are they going to benefit by it?

Mr. FOOTE. I do not believe they are, Senator.

Senator WEEKS. How much money do you suppose it is costing the business men of the country to collect checks now?

Mr. FOOTE. I do not know; but it has been estimated that it costs the regional banks at least $50,000,000 to collect these items if they pay the present rates.

Senator WEEKS. Do you think that is a good and safe estimate?

Mr. FOOTE. I do not know. We have tried to go into the matter carefully in Mississippi, and we estimate that the revenues of the banks of Mississippi in that particular are $650,000 a year.

Senator WEEKS. Of course, we do not want to do anything without the fullest consideration, that is going to affect organized business as it is now organized. At the same time if there is going to be an opportunity to greatly facilitate a great business like the collection of checks, we at this time want to take advantage of it.

Mr. FOOTE. Senator, the average man checking on a bank in our country, his banker would not be at all affected if it was not for the exchange that is earned on his account. We have a lot of merchants that do $5,000 worth of business a month in the bank and do not carry much of a balance. It is difficult to keep them from overdrawing. Most of those exchange earnings come from accounts of that character. The average balance in our bank is only $500.

Senator NELSON. The average per depositor?

Mr. FOOTE. Yes. There are lots of accounts that we and every other bank has that would be a great expense to us if we did not earn this exchange. If we dealt only with that kind of people we would have to cut the accounts out or charge them fees for handling the business.

Senator NELSON. If you did not have collections, would you not charge so much for carrying such an account?

Mr. FOOTE. That would be a very difficult thing to do.

Senator O'GORMAN. Has that ever been done in the banks of this country?

Mr. FOOTE. I never heard of it.

Senator NELSON. I was told that a bank in Chicago—I think it has over $1,000,000 in capital, about $2,000,000 in capital and surplus—that they made a rule to make a small charge where a man's account did not exceed $250 on an average.

Senator O'GORMAN. A small charge for what?

Senator NELSON. For depositing.

Senator HITCHCOCK. They do it in England on all accounts.

Senator NELSON. The charge is very slight. It involves a good deal of bookkeeping. Every time a check is drawn on that little fund it has to be entered on the books, and with an account that does not average over $250, the expense is greater than the profit. The Chicago bank to which I referred made a rule that where the account was less than $250 on an average, they would charge a small amount, just enough to cover the expense. They do not make any charges on accounts over that amount.

Senator SHAFROTH. That is the first I ever heard of anything of that kind.

Senator HITCHCOCK. We have banks in Omaha which adopted the policy of withdrawing an account where it averaged less than $250.

Senator WEEKS. That is general.

Senator SHAFROTH. There is always the hope that it will not always be so small.

Senator WEEKS. Hopes are sometimes so long deferred.

Mr. FOOTE. If we do not get some relief from this provision in this bill we can not charge people in our country for carrying these accounts.

Senator HITCHCOCK. As a matter of fact, you could not run a bank in your community without making these charges?

Mr. FOOTE. Not profitably.

Senator HITCHCOCK. You think that is probably true of other small communities throughout the country?

Mr. FOOTE. It is true of nearly all communities in the South and West.

Senator HITCHCOCK. That the other means of profit are not sufficient to enable you to give banking facilities to the community?

Mr. FOOTE. Yes, sir; that is a fact.

Senator HITCHCOCK. I think that is one of the great differences between the United States and European countries. Our small towns have banking facilities and in the European countries small towns are practically without banking facilities, except what they get through the post office.

Mr. FOOTE. Senator, in Europe they have so much less expense. In our towns we have to pay a man whom we consider an expert at the

head of our bank. Of course, he is not much of an expert. but he is the best that we can get. He gets $4,500 a year. Then we have other officers there who are paid what is considered high pay for bank officers. But in the branch of Lloyd's bank in some little town in England they are probably not paying a man to run that branch over $1,000 a year, and the direction or control of the policy of the bank is in London. There is no comparison in economy in doing business in England and in this country.

Senator HITCHCOCK. How large is your town?

Mr. FOOTE. It has 12,000 population.

Senator HITCHCOCK. I am very positive that there are many towns of 12,000 population in Europe without any banking facilities at all.

Mr. FOOTE. Whenever they have any banking facilities it is simply a branch, and the branch is operated in the interest of the parent bank. In the little banks down in the South they operate largely from the standpoint of community interest. We tried to develop the communities to these banks and put capital in the communities. That is not the case in the French banking system. The capital all flows to the great wealthy people, and they give back as little as they can possibly afford to.

There is another thing about the position of the country bank. The business is largely refined in country banks. The country banks lose a lot of money.

In the first place, out in the country there is not the class of loans you have in the cities. The banking facilities are not as efficient. The gentleman from Texas this morning testified he had two degrees. You find most country bankers have had not much more than two years in school. He assumed that he was better qualified to pass on this proposition because he had two degrees, and he was right in assuming that the country banker, as a general proposition, was not a well-educated man, but you can not improve that condition. It is here with us. It is a national state of being, and we will have to deal with it, and we can not regulate these things according to the man who has had two degrees. He had been lifted way above the normal man in his estimation. For instance, he goes on to say that what these bankers who come before this committee say is pure buncombe. I do not believe a word of that. I think all the bankers appearing here are serious.

But we think, Senators, if this condition must remain in the bill it at least ought to be so amended as to prevent checks going to the regional banks bearing the indorsement of nonmember banks. If we can not be relieved entirely, we ought certainly to get that much relief. Nonmember banks ought not to be permitted to run any checks through.

For instance, we will assume that a bank in St. Louis, ambitious to serve its customers, would say to the State banks if they did not want to become members and issue checks on these banks that they would pay them. The St. Louis banks will cover checks from multitudes of banks in Oklahoma and Texas and elsewhere that do not belong to the system. They will turn them into the system and get them parred at the expense of the members, and a nonmember bank gets the same benefit. I do not think if this provision must stand that any check that is handled by a nonmember bank ought to be permitted to go through the system. Member banks receiving checks

from nonmember banks ought not to be allowed to take those checks into the system. That is simply for the reason we, who are in the system, can not ourselves loan the nonmember banks. If you have a bank and you do not come into the system, and I am in it, you can send your checks to some member bank and deposit it, and you clear them at par for the benefit of your balances. The member bank will put them into the system and we will have to pay them at par, but the system in turn can not take my checks and par them for me. The system would insist upon three times the revenue in the way of exchange earnings, and that is to put the nonmember bank in the position of charging what it pleases, and we would have the burden of paying those expenses and collecting all the checks we receive on nonmember banks without any compensating benefit in that regard from the system. I think if that provision of the bill must stand it ought at least to allow for the passing through of any checks bearing the indorsement of nonmember banks.

The CHAIRMAN. If you had an account in St. Louis with a reserve bank, and Bill Jones, oue of your big depositors sent his check to a merchant in St. Louis, that merchant would put the check into his bank there and that bank in St. Louis would put that into the Federal reserve bank at par. Then the check on you would be paid in St. Louis at par, would it not?

Mr. FOOTE. Yes, sir.

The CHAIRMAN. Would not that be almost the same thing as your keeping an account in St. Louis?

Mr. FOOTE. The same thing.

The CHAIRMAN. You would not really need an exchange account there for the purpose of accommodating your depositors?

Mr. FOOTE. No; I think not. I think that if the regional banks permit their members to draw on them generally that it would eliminate the necessity for carrying any other bank accounts. I do not believe we would have to have any banks at all.

Here is the trouble with us. You can not, in these regional banks, collect items for us on nonmember banks, and at present there are about 75 per cent of our items that would be on nonmember banks, under present statistics, and therefore we can not get them to take up our business just as we do at present. We have the checks to handle that will be drawn on nonmember banks, and so we must keep that relation with the regional banks which the law requires, and keep up the other feature of our establishment too, and in the meantime we lose our revenues from that feature of our business. Do I make myself clear?

Senator REED. If the checks were drawn on a member bank, could you not have been charged for that collection if you could not collect through the regional bank and collect it through the outside bank; you could still charge them in that instance, could you not?

Mr. FOOTE. You could charge, I think——

Senator REED (interposing). I may have misunderstood you, but I thought your argument was that you would have to keep some money in a city, in some banks, because you would have to get that bank to collect for you from the nonmember banks. You would get your exchange on that?

Mr. FOOTE. We would charge our depositor; yes.

Senator REED. So you would not be deprived of that kind of revenue?

Mr. FOOTE. We would lose all the revenue from the business. We have to pay as much as we charge, and maybe more. We could not make anything. At present we are absolving all of those charges and make a profit of $11,000 a year in our bank. If we have to lose that $11,000 we would still keep up the present arrangement of carrying large balances here and there to effect collection facilities.

Senator HITCHCOCK. Suppose you did not go into the organization, but you opened an account with a bank which did become a member of the new organization; and suppose you deposited with that bank all the checks which you received upon which you would ordinarily secure collection charges. The bank in which you deposited it would deposit those checks; being a member, it would have the right to have them collected at par through the regional bank?

Mr. FOOTE. Yes, sir.

Senator HITCHCOCK. Under those circumstances is there any necessity for a bank becoming a member of the proposed organization in order to get the advantage of having checks and drafts cashed at par?

Mr. FOOTE. Absolutely none. The nonmember banks get all the benefit in that particular that the member bank would get without having to contribute anything in any way toward the making of the system.

The CHAIRMAN. We will now hear Mr. McCulloch.

All right, Mr. McCulloch, we will hear you now.

STATEMENT OF J. L. McCULLOCH, PRESIDENT OF THE MARION NATIONAL BANK, MARION, IND.

Mr. McCULLOCH. Mr. Chairman, I want to say for the Indiana delegation or committee that we do not feel the necessity of taking very much of the committee's time by having it hear all of the members of the delegation. We have, as you all know, presented a written statement signed by each member of the delegation, and we thought it was better to have Mr. Frenzel enlarge upon the written statement and talk a little more at length in regard to it. But the other members of the committee do not care to take up your time unless your committee desires to hear from them.

What I wanted to say to the committee was a little résumé of the powers of this committee and how it was appointed, and to give, if I could, a little more emphatic explanation of how our banks feel in regard to the matter of this pending bill in Indiana.

As has been stated in the written statement, we are appointed by the Indiana Bankers' Association, which is composed of 872 banks, practically all of the banks in the State, excepting 98. We had recently a large representative meeting at Indianapolis of this association. At this meeting we had over 700 bankers on the afternoon of the 23d, at which time this committee was appointed, and Senator Owen, the gracious chairman of the committee, very kindly came out to Indiana to address that meeting, and I believe he will bear me out in the statement that it was a very representative meeting, and

that the members present at that meting seemed to have open minds, and were willing to be shown in regard to this bill and very anxious to learn everything in regard to the bill they possibly could.

Now, I want to emphasize that, because the statement has been made or the impression created, perhaps, that because some of what you might call the big bankers of the country who came here that any of the rest of us who come seem to reiterate what they said and let them lead us too easily. We have, of course, respect for the big bankers of this country who have studied these questions, but I want to say for the bankers of Indiana that we have a very representative lot of citizens who are the presidents and officers of the banks of Indiana, and we think they are our leading citizens in the towns which they represent, and they have local influence and are men of fair ability, at least, and men who are not willing to be led unconsciously without a good deal of investigation—after a good deal of investigation for themselves. I believe every banker in Indiana is earnestly considering and trying to find out all about this bill he possibly can. In other words, it is being studied carefully at home in the evenings, and they are talking with other bankers whom they meet or other citizens of the community who are interested.

I myself am president of a bank in a town of only 25,000 inhabitants, which might be called a small country bank. I find that the leading citizens, the merchants, the manufacturers of our town are anxiously considering this bill, and when they come into the bank they want to talk about it and consult with you about it and ask you what you think about it. They are also studying the bill and interested in it. Now, I think that codition is true all over the State of Indiana, that, as I have stated, all of our business interests, manufacturing interests, as well as banking interests, are greatly interested and are thinking and trying to get information about this bill. I want especially to emphasize that fact for the bankers, because if we, as Indiana bankers, get up here and happen to make some objections to the bill which have been made, perhaps, by some of the larger bankers before us it will not create the impression some people have spoken of. We are earnestly considering the bill and studying it ourselves. In our meeting with President Wilson yesterday morning he kindly honored this committee with an interview of 40 minutes, discussing the bill. When we made an objection that happened to have been made before in regard to representation on the reserve board he wanted to know right away if we had read the bill. I make this little talk to try to show you that any impression of that is erroneous. We finally convinced President Wilson, I believe, before we left that we knew something at least about the bill and had studied it in good faith and had tried to the very best of our ability to not object to this bill in every particular, by any means, but were only trying to help as best we might in constructing a bill which, when it was finally passed would be as near ideal and what the country needed as possible. We, I think, convinced President Wilson, and I hope we may convince this committee, that we, the Indiana bankers, come here in good faith and in an earnest effort to help.

The Indiana bankers, as a whole, I believe are favorable to this bill if we can get some changes in the bill as it has passed the House of Representatives. As I stated, at our meeting of 700 bankers we were harmonious in thinking the best way to handle the matter

and express their views was to appoint this committee of five to come down here and talk with you in regard to the bill and explain as best we might some few changes which we thought were absolutely necessary to make the bill workable. In appointing that committee we took a good deal of care to select men who would really represent the different sizes of banks and the different sizes of cities in which the banks were located, and also the different localities. In order to get ourselves clear on the record, I wish to repeat that this committee is composed of myself, as president of the Marion National Bank, of Marion, Ind., as chairman of the committee; Mr. Charles McCulloch, who is the son of our famous citizen, Hugh McCulloch, who is president of the Hamilton National Bank, of Fort Wayne; John P. Frenzel, who has already talked to you, vice president of the Merchants' National Bank of Indianapolis and president of the Indiana Trust Co. of Indianapolis. Another member of the committee is F. J. Reitz, president of the City National Bank of Evansville. Another member is Thomas Paxton, the president of the People's National Bank of Princeton. Two of our members are from the southern part of the State, two from the northern part of the State, and one from the central part of the State, the city of Indianapolis. So this committee represents the different localities, the different cities in and almost all of the State, by being arranged in that way—stretched over different parts of the State.

This committee has taken a good deal of pains and time to try to find out the sentiments of the different bankers in their localities. In addition to that, at our Indianapolis meeting, which was held only about 10 days ago, we had a continuous conference with each other almost entirely about this bill. In addition to that, I have been president of the Indianapolis Bankers' Association during the past year, and I spent a great deal of time, especially lately since this bill has come up, traveling over the State and talking with bankers from many towns. I have talked with hundreds of bankers over the State in regard to this bill. And I say to you now, after having talked with the bankers in the different localities of the State, and having talked with so many different bankers of the cities, as I have explained to you recently, we believe that the bill is not satisfactory to the bankers without some changes.

The CHAIRMAN. What changes?

Mr. McCULLOCH. The changes which we propose, as I have said, we have agreed upon and given to you in writing. We may be mistaken in some of these things, but we give you, as best we may, the feeling which we find from our different conferences and talks with bankers throughout the State. Those reasons, as I say, are given to you in writing.

Senator HITCHCOCK. Can you recapitulate now?

Mr. McCULLOCH. Mr. Frenzel has given to you the details. The first, of course, that has been read to you, is the compulsory feature about coming in and your charter being forfeited unless you do come in.

The second is a fair representation of the bankers upon the Federal reserve board.

The third is a question of 12 regional banks being too many.

Senator HITCHCOCK. Is that the second?

Mr. McCULLOCH. That is the third.

Senator HITCHCOCK. What is the second?

Mr. McCULLOCH. The second was fair representation upon the Federal reserve board—fair with us. We would not expect anything but a minority representation, but some voice where we could be really heard on such important matters as come before the Federal reserve board.

Third, we think 12 regional banks are too many.

Fourth, the dividend to be changed to 6 per cent instead of 5.

Fifth, the clause in regard to savings banks, that the banks be allowed to come in at once instead of waiting for a year—that the savings-bank department be allowed to come in at once if they desired to do so, instead of waiting for a year. I do not feel——

Senator HITCHCOCK (interposing). Will you explain what you mean about the clause which required banks with savings departments to wait a year?

Mr. McCULLOCH. You will find the clause under savings banks. As we read the bill, as we understand it, it means that any bank—for instance, now, as we have some national banks, they have savings departments, and they might have to stop that savings department after the law went into effect for one year. The clause reads as follows:

> That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department.

We assume that to mean that if this bill went into effect we could not make that application to the Comptroller of the Currency to open a savings department until after one year, and if a bank did have a savings department they would have to close it up, practically, and wait for a year before going on with it. There are some national banks that have savings departments, as has been explained to you already. Whether that is right or not the comptroller allows it to have a savings department, and so long as you are now making it legal to have a savings department, why wait a year and make them disorganize the departments they already have and then, in a year from now, you can put it back in?

I do not feel, gentlemen, that I am perhaps versed enough in this bill to go into the technical features of it, although I have studied it a great deal, and I do not feel that it would be anything except a repetition of what has gone before so many times; and, as I say, the committee stated they thought it was better and easier for us to agree on these points which we wanted to put in writing, and then let one of our number explain the matter in more detail, and we have had Mr. Frenzel do that for us, and I understand Senator Reed wants to ask particularly some questions of Mr. Frenzel. As the other members of the committee explained, Mr. Charles McCulloch, of Fort Wayne, had to go home last night. Unless you want to hear from the other members of the committee, we feel it would be taking a great deal of your time to have you hear us.

The CHAIRMAN. That practically concludes all you want to say?

Mr. McCULLOCH. That concludes what I want to say.

Senator HITCHCOCK. I would like to ask you a few questions. Would it be necessary for the operation of the average bank in Indiana to contract its loans to any extent in order to raise money

for the purpose of subscribing to the capital of the reserve bank of that district?

Mr. McCULLOCH. Well, they have got to get the money from some place.

Senator HITCHCOCK. Where would they get the money?

Mr. McCULLOCH. Where would they get it?

Senator HITCHCOCK. That is what I am asking you, where would they get the money?

Mr. McCULLOCH. The banks of Indiana, of course, have to keep their money in use up to somewhere near the reserve required by law to make money, and it would be fair to assume that money was now, in a way, up to the point left for reserve, and I do not see where else they could get it unless they asked some people to pay off their notes.

Senator HITCHCOCK. What sort of condition would that produce? Suppose the banks of Indiana began to ask a few of their customers to reduce their loans?

Mr. McCULLOCH. It would, to that extent at least, make it perhaps a little hard for some of the communities, and the answer to that is that if the amount which is asked for, and especially if it were possible to find they did not need as much as or certainly not more than 10 per cent, that is indicated as the first call of the bill, that that would not be enough to be very pressing. And they could, in turn, in a very short time after they put in their money for the call, if it became absolutely necessary for the benefit of their community to get in shape pretty quick, borrow that back and overcome it in that way after a short temporary interval.

Senator HITCHCOCK. Have you more than one reserve city in Indiana?

Mr. McCULLOCH. Only one—Indianapolis.

Senator HITCHCOCK. Do you know what amount of money is on deposit in the banks of Indianapolis as a reserve of country banks?

Mr. McCULLOCH. Well, that would be a mere guess on my part, Senator. I, of course, might make a guess.

Senator HITCHCOCK. Assuming that it is $15,000,000?

Mr. FRENZEL. About $15,000,000, I think, Senator.

Mr. McCULLOCH. No; he means only as reserve for the country banks. I would not think that much, but of course Mr. Frenzel, being in an Indianapolis bank, ought to know about that.

Senator REED. You mean the country banks have in the city banks $15,000,000?

Mr. FRENZEL. Yes.

Senator REED. There is $10,000,000 in one bank in my town.

Mr. McCULLOCH. He is not talking about the total deposits, but he is talking of the reserve balances of the country bankers.

Senator HITCHCOCK. That is what Senator Reed refers to. Kansas City and Omaha—where I come from—are larger reserve cities than Indianapolis. I would assume they have about $15,000,000 on deposit of the country banks. Now, assuming that figure, what would the Indianapolis banks do in order to meet the checks which the country banks would draw if that $15,000,000 was transferred to the reserve bank?

Senator HITCHCOCK. What is the second?

Mr. MCCULLOCH. The second was fair representation upon the Federal reserve board—fair with us. We would not expect anything but a minority representation, but some voice where we could be really heard on such important matters as come before the Federal reserve board.

Third, we think 12 regional banks are too many.

Fourth, the dividend to be changed to 6 per cent instead of 5.

Fifth, the clause in regard to savings banks, that the banks be allowed to come in at once instead of waiting for a year—that the savings-bank department be allowed to come in at once if they desired to do so, instead of waiting for a year. I do not feel——

Senator HITCHCOCK (interposing). Will you explain what you mean about the clause which required banks with savings departments to wait a year?

Mr. MCCULLOCH. You will find the clause under savings banks. As we read the bill, as we understand it, it means that any bank—for instance, now, as we have some national banks, they have savings departments, and they might have to stop that savings department after the law went into effect for one year. The clause reads as follows:

That any national banking association may, subsequent to a date one year after the organization of the Federal reserve board, make application to the Comptroller of the Currency for permission to open a savings department.

We assume that to mean that if this bill went into effect we could not make that application to the Comptroller of the Currency to open a savings department until after one year, and if a bank did have a savings department they would have to close it up, practically, and wait for a year before going on with it. There are some national banks that have savings departments, as has been explained to you already. Whether that is right or not the comptroller allows it to have a savings department, and so long as you are now making it legal to have a savings department, why wait a year and make them disorganize the departments they already have and then, in a year from now, you can put it back in?

I do not feel, gentlemen, that I am perhaps versed enough in this bill to go into the technical features of it, although I have studied it a great deal, and I do not feel that it would be anything except a repetition of what has gone before so many times; and, as I say, the committee stated they thought it was better and easier for us to agree on these points which we wanted to put in writing, and then let one of our number explain the matter in more detail, and we have had Mr. Frenzel do that for us, and I understand Senator Reed wants to ask particularly some questions of Mr. Frenzel. As the other members of the committee explained, Mr. Charles McCulloch, of Fort Wayne, had to go home last night. Unless you want to hear from the other members of the committee, we feel it would be taking a great deal of your time to have you hear us.

The CHAIRMAN. That practically concludes all you want to say?

Mr. MCCULLOCH. That concludes what I want to say.

Senator HITCHCOCK. I would like to ask you a few questions. Would it be necessary for the operation of the average bank in Indiana to contract its loans to any extent in order to raise money

for the purpose of subscribing to the capital of the reserve bank of that district?

Mr. McCulloch. Well, they have got to get the money from some place.

Senator Hitchcock. Where would they get the money?

Mr. McCulloch. Where would they get it?

Senator Hitchcock. That is what I am asking you, where would they get the money?

Mr. McCulloch. The banks of Indiana, of course, have to keep their money in use up to somewhere near the reserve required by law to make money, and it would be fair to assume that money was now, in a way, up to the point left for reserve, and I do not see where else they could get it unless they asked some people to pay off their notes.

Senator Hitchcock. What sort of condition would that produce? Suppose the banks of Indiana began to ask a few of their customers to reduce their loans?

Mr. McCulloch. It would, to that extent at least, make it perhaps a little hard for some of the communities, and the answer to that is that if the amount which is asked for, and especially if it were possible to find they did not need as much as or certainly not more than 10 per cent, that is indicated as the first call of the bill, that that would not be enough to be very pressing. And they could, in turn, in a very short time after they put in their money for the call, if it became absolutely necessary for the benefit of their community to get in shape pretty quick, borrow that back and overcome it in that way after a short temporary interval.

Senator Hitchcock. Have you more than one reserve city in Indiana?

Mr. McCulloch. Only one—Indianapolis.

Senator Hitchcock. Do you know what amount of money is on deposit in the banks of Indianapolis as a reserve of country banks?

Mr. McCulloch. Well, that would be a mere guess on my part, Senator. I, of course, might make a guess.

Senator Hitchcock. Assuming that it is $15,000,000?

Mr. Frenzel. About $15,000,000, I think, Senator.

Mr. McCulloch. No; he means only as reserve for the country banks. I would not think that much, but of course Mr. Frenzel, being in an Indianapolis bank, ought to know about that.

Senator Reed. You mean the country banks have in the city banks $15,000,000?

Mr. Frenzel. Yes.

Senator Reed. There is $10,000,000 in one bank in my town.

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Mr. McCulloch. They would do the same thing, I suppose. They would have to find that money some place, and they, in turn, would contract their loans a little.

Senator Hitchcock. How would that affect business conditions of Indianapolis?

Mr. McCulloch. Wait a moment; that is a contribution, isn't it? Would they have to contract their loans also, as well as the smaller banks? Yes; they would. You are right about that. Well, everybody admits who has studied this bill that temporarily—immediately after the bill went into effect—there would be quite a contraction of loans. I think anybody who has studied the bill can not get anything else out of it. That is the feeling of most people who have studied the bill, and it seems so to me. That would be only a temporary arrangement. In other words, this would be only a shifting of the balances to the reserve banks from somewhere else, and if the bill works, as we hope it may, we could shift around again. But during the interval there is no question about there being a contracting of the loans.

Senator Hitchcock. Now, as a banker, would you think it better to have that contraction made very gradually?

Mr. McCulloch. I think perhaps it would be better to have it made very gradual.

Senator Hitchcock. What are the banking conditions in Indiana now? Are the country banks rediscounting much of their paper?

Mr. McCulloch. We have been during the last three months, yes. We discounted considerable paper.

Senator Hitchcock. Where do they rediscount?

Mr. McCulloch. With their different correspondents.

Senator Hitchcock. At Indianapolis?

Mr. McCulloch. At Indianapolis.

Senator Hitchcock. Chicago?

Mr. McCulloch. Chicago, New York, Cleveland, and Cincinnati. And the smaller banks, of course—for instance, our bank has 25 accounts with small village banks, etc., and they have some of their discounts with us. Fort Wayne has some close. Evansville and the middle-size cities, of course, have small banks around them, for rediscounts close at home, ordinarily.

Senator Hitchcock. Is it customary for the banks to rediscount to a greater extent than the amount of capital?

Mr. McCulloch. Sometimes they do. I do not say it is customary. It is a little out of the ordinary, I should say.

Senator Hitchcock. What would you say is the average discount of the country bank?

Mr. McCulloch. I should say one-half and not over two-thirds of the capital.

Senator Hitchcock. What would you say to the proposition if a subtreasury were established in Indianapolis for the purpose of affording an opportunity to the banks of Indiana to procure currency to the extent of 75 per cent of their capital upon seasonable demands at a rate of interest which would increase in accordance with the length of time they required the money? Would that meet the needs of the situation in Indiana?

Mr. McCulloch. It would help, certainly.

Senator HITCHCOCK. That is, allowing the banks to have all the facilities they now have, through their correspondents, and giving them this facility in addition. How many months a year do you think the Indiana banks would apply to that subtreasury for that purpose?

Mr. MCCULLOCH. Well, of course, the greatest demand is during the crop-moving period, but that does not always follow. We have demands at other seasons of the year which it is pretty hard to specify when they may come or why they come, sometimes. Ordinarily it would be only once a year, stretched over the months, perhaps, from the first of July to the first of November or the middle of November. At intervals during those months. And, as I have stated there would be other times when some of it would be going on. In fact, I think there is a little of it going on almost all the year around.

Senator HITCHCOCK. What rate of interest do they pay on their rediscounts?

Mr. MCCULLOCH. Well, that depends somewhat on the local conditions—on the amount of balance which they carry. The ordinary rate which they carry of interest is usually 6 per cent, and the bankers in rediscounting for each other usually get a little less rate than that. If they carry a pretty good sized balance with the bank from whom they are asking the accommodation, I would say the rediscount would not average over 5 per cent, sometimes more and sometimes less, owing to the conditions and the general rate of interest.

Senator HITCHCOCK. Would this requirement to subscribe 20 per cent of the capital keep many banks out of the new system?

Mr. MCCULLOCH. I do not understand the question.

Senator HITCHCOCK. Would the requirement of the bill that every bank who joined could subscribe 20 per cent of the capital keep many of the banks out of the system?

Mr. MCCULLOCH. That is a pretty hard question. I think, of course, it is pretty unjust to tell them that they must come in.

Senator HITCHCOCK. Suppose it is left optional; suppose it is made optional?

Mr. MCCULLOCH. Oh, if it is left optional, I think many would come in, and perhaps more. Surely as many would come in if it is left optional as if they were compelled to come in.

Senator HITCHCOCK. How do you explain that?

Mr. MCCULLOCH. Well, there is a feeling, you know—it is human nature; that is all, for them to feel as if it is a little bit of imposition upon them to be compelled to do a thing. Almost all American people do not like to be driven. They are very easy to lead, but somehow they revolt against being driven; that is all.

Senator HITCHCOCK. Are there any reserve requirements under the Indiana laws for State banks, now?

Mr. MCCULLOCH. Country banks, 15 per cent; 6 per cent in the vaults and 9 per cent in the reserve banks. The reserve city banks are required to keep a reserve of 25 per cent.

Senator HITCHCOCK. And those country banks would still have to keep that same reserve if they did not come into the association, while remaining State banks?

Mr. McCulloch. Unless the State law was changed; yes. But I think the next session of the legislature, after this law went into effect, would very likely change that. That would be my guess. In other words, they would reduce the reserves to the same as the national banks. My reason for that is that formerly they did not charge as much reserve. They did not have the same requirements in regard to reserve as national banks, but they very soon made a law so that the State banks would be the same as the national banks. It is now practically the same.

Senator Hitchcock. Can the State banks keep among their reserve national bank notes?

Mr. McCulloch. I am not sure about that. I think they have to keep just the same kind of a reserve. I am not connected with a State bank, and I could not answer that. Mr. Frenzel belongs to a State bank, as well as a national bank, and he could answer the question.

The Chairman. Mr. Frenzel, you may answer the question, if you like.

Mr. Frenzel. Were you asking about the requirements of the national banks, when you asked the question, or the reserves under the State law?

Senator Hitchcock. I am asking about the State law as to State banks.

Mr. McCulloch. As I understand it, it is the same as national banks. The law in regard to the trust companies in the State of Indiana is a little different. They have a different law governing trust companies, but the State banks, as I understand it, have to keep the same reserves as the national banks under the Indiana law. I may be mistaken.

Mr. Frenzel. If you will permit me, it is 15 per cent of the commercial deposits.

Mr. McCulloch. That is the trust companies, but he is talking about the State banks.

Mr. Frenzel. The State banks. Oh, of course, they keep in the reserves national-bank notes or gold.

Senator Hitchcock. Any kind of money?

Mr. Frenzel. Yes.

Senator Hitchcock. Then you can keep national-bank notes as reserve?

Mr. Frenzel. Yes.

Senator Shafroth. I think it is universal in regard to State banks.

Senator Hitchcock. No; some States do and some do not. It is pretty general, however.

Senator Shafroth. It is pretty general. I did not suppose there was a single State that did not have that provision permitting national-bank notes to be used as their reserves.

Senator Hitchcock. I have no more questions.

The Chairman. All right, Mr. Frenzel.

FURTHER STATEMENT OF J. P. FRENZEL.

Mr. Frenzel. Mr. Chairman, has the committee any intention of asking me any questions?

Senator Reed. I want to ask you a few questions. How do you regard our banking system as a whole? Is it a good system or a bad

system? I do not mean whether it is a perfect system, but whether, taking it as a whole, it is a pretty healthy banking system?

Mr. FRENZEL. I do not think it is.

Senator REED. What is the defect you think exists that ought to be remedied, or the defects?

Mr. FRENZEL. I think the first one, which is a very serious one, is that you provide in the national-bank act for a circulating medium that is not flexible. That gets into a fixed form, as to amount, whether the needs of the country require it, or whether they do not require it.

Senator REED. Do you apply that, now, to the national-bank currency?

Mr. FRENZEL. Yes; the national-bank notes. That is part of the national-bank act.

Senator REED. The first proposition is lack of flexibility in the national-bank currency?

Mr. FRENZEL. Yes.

Senator REED. What is the next? That is No. 1, is it?

Mr. FRENZEL. That is No. 1.

Senator REED. And if that was remedied the principal evil would be gone?

Mr. FRENZEL. If that was remedied the principal evil would be gone; yes.

Senator REED. What is the next evil in order of importance?

Mr. FRENZEL. There is nothing in the system that provides for any distribution of resources for the general good, as between business done in the various parts of the country, through all of the national banks that are part of the system. In other words, speaking of it in a homely way, it is a system that requires every bank to stand upon its own bottom, without having the advantage of help, sympathy, and cooperation from any other bank in the system. Therefore the aggregate of the whole is not distributed and shifted from time to time where the temporary needs may call for it, but remains in every single individual concern only.

Senator REED. I do not mean to cut you off from a full answer, but I am trying to cover a lot of ground in a little time.

Mr. FRENZEL. Very good.

Senator REED. Let us see—you have a bank in Indianapolis?

Mr. FRENZEL. Yes.

Senator REED. In ordinary times your bank keeps on deposit a fund in one or more banks in Chicago and also in New York, do you not?

Mr. FRENZEL. Yes.

Senator REED. Do you in any other place?

Mr. FRENZEL. St. Louis. Those are the three reserve cities.

Senator REED. And in ordinary times you have no trouble in getting any accommodation you may want, within reason, of course, from any one of those sources, do you?

Mr. FRENZEL. No.

Senator REED. Therefore the difficulties you referred to in your last answer must be difficulties which cover the extraordinary or unusual situations?

Mr. FRENZEL. Oh, no; Senator. They are cumulative. They commence with a very little trouble, with a very little surplus of funds,

growing out of these large deposits, and they keep growing until you get——

Senator REED (interposing). To the danger line?

Mr. FRENZEL. To the place of the reaction and the acute stage which we call here, in this country, panics.

Senator REED. Yes.

Mr. FRENZEL. Now, don't you see, Senator, if that relation was homogeneous between all of these concerns, you know, that piling up at one time because of certain conditions of business, of large funds in New York, in the shape of deposits from country banks, or in Chicago or some other place, where they could not use it because the needs of business did not demand it, and where and because of that condition, you know, they are tempted to go into speculative ventures, would not occur?

Senator REED. Just to keep right at the point as nearly as we can, you say then money sometimes piles up in New York, and perhaps in Chicago or St. Louis, that there is no real demand for, and you think they get into speculation?

Mr. FRENZEL. Yes.

Senator REED. Of course, those banks would prefer something aside from speculation if they could get it, would they not?

Mr. FRENZEL. Yes.

Senator REED. Therefore I take it that when there is a surplus of money in Chicago, New York, or St. Louis your bank would not have the slightest difficulty in getting all the money it wanted upon any kind of reasonable terms?

Mr. FRENZEL. That is right.

Senator REED. Not a bit?

Mr. FRENZEL. No.

Senator REED. So that, if I get you, then, when money thus piles up there and the banks there can not use it and the banks anywhere else can not use it, then the temptation exists for these big centers to invest in questionable securities?

Mr. FRENZEL. I would not call them questionable securities, but in more speculative ventures.

Senator REED. In stocks and bonds. Now, if that money was not piled up there in that way that trouble would not exist, would it?

Mr. FRENZEL. No.

Senator REED. If you had a system—and it is only piling up there by a want of demand of the general banking system of the country for it?

Mr. FRENZEL. Yes.

Senator REED. So it simply amounts to a plethora of money at some season of the year or at some time?

Mr. FRENZEL. Yes.

Senator REED. If you had the money all in the hands of one bank that would be true, would it not?

Mr. FRENZEL. No.

Senator REED. You would have the amount of money.

Mr. FRENZEL. But do not confuse money with credits or circulating mediums. You would have an automatic way of reducing the surplus by retiring and canceling these obligations that would be out in the shape of circulating notes.

Senator REED. So that there ought to be a way, when the money piles up, automatically to retire it?

Mr. FRENZEL. That is the reason, Senator, I mentioned when you asked me that I believed one of the first and most serious defects was the fixity of our notes.

Senator REED. What I want to get at is how you propose to automatically retire as a plain, practical question. Let us drop all questions of definitions of money and different kinds of money, and all that sort of thing, and just say we have the currency we have now in the United States and you want to now fix a remedy onto this system just as we have it, and remedy it. How would you automatically retire the money that is piled up in New York, St. Louis, and other places and does not get back into the country banks?

Mr. FRENZEL. Be retiring it.

Senator REED. What would be the process of retirement? What is the means to be used?

Mr. FRENZEL. It would not go into the central bank—that is what you propose, if you please—it would not go into the central bank except by way of some transaction. When it goes in by way of that transaction, the central bank has got to give something for it. And where the central bank has its reserve on hand, it does not need that on hand and it cancels it. That is all. It is practically a bookkeeping entry, and instead of their being, say, a thousand of metallic currency and a thousand of bank notes, circulating notes, you have only, say, a thousand of metallic currency and you would have reduced, you know, the circulating exchange you have on hand.

Senator REED. Who is to do that?

Mr. FRENZEL. In the case which you propose, Senator, if I understand your question, the central bank; or, if you have some other agency, which can do that promptly and quickly it would be just as well.

Senator REED. Let us take this present system and forget we are talking about a regional bank system or anything else. Nobody wants to take money he gets and burn it up and destroy it, and, of course, therefore he keeps it and loans it out.

Mr. FRENZEL. Oh, yes; there is a way, Senator. They can send the notes back and destroy them.

Senator REED. For all practical purposes there is no way of retiring it. I of course know about the way you can retire a national-bank note, but there is no proposition in this bill that provides for their retirement, is there?

Mr. FRENZEL. Yes.

Senator REED. What is it?

Mr. FRENZEL. I think you will find in the bill there when they get back—in the first place, if one regional bank gets a note of another regional bank, it is under a penalty of 10 per cent if it uses it, and it must immediately send it back to the bank it is issued to and the bank it is issued to can take it, unless somebody comes there and asks for it; but if they do not ask for it, the purpose of that issue is gone and they cancel it.

Senator REED. Why would not that temptation exist just the same to take that and invest it or lend it to somebody who wanted money, who might be dealing in stocks and bonds?

Mr. FRENZEL. Oh, I think you are quite right, but not to the same extent, you know, because legitimate demands of the commerce and trade of the country would keep that circulating and would keep it from piling up where it might be seen and tempting the speculator going to the bank and trying to get it. It would not happen. That is to say, I would not say it would not happen absolutely, but it won't happen in that proportion where the trouble finally will be formidable. Do I make myself clear, Senator?

Senator REED. Yes.

Senator SHAFROTH. You mean by that this paper which the reserve bank will take, being based upon a commercial transaction, the money which will be obtained upon that will not be used for speculative purposes?

Mr. FRENZEL. No; but it would be more likely, as soon as it gets through with that use, to take it right back——

Senator SHAFROTH (interposing). And pay it; and when it is paid back the banker can cancel the notes issued to put it in force?

Mr. FRENZEL. And automatically in that way reduce the reserve, because on one side of the ledger you cancel the liability of the goods that pay it, and that brings up immediately the percentage of the reserve they have and makes it automatic. That results, finally, in a reduction of the rate for the purpose of getting somebody to come in, you know, and borrow money of them.

Senator REED. I have heard a good deal about this automatic regulation, and I am not satisfied with it. Of course if we had an automatic regulation it would be a very fine thing to have, but what I am trying to get is a sensible answer to the question of how it is automatically retired. When we speak of an automatic regulation I do not mean by that a regulation of some human agency—that is, by somebody who puts the brakes on of his own volition.

Here is one of the regional banks that is organized. It has the right to obtain Government paper whenever it takes a note indorsed by a member bank due within 90 days over to the Government reserve agent and presents it to him. It has a right to get that in currency. There is to be set aside a 33⅓ per cent reserve. When that note becomes due it may be renewed, put back in, and the process continued indefinitely, can it not?

Mr. FRENZEL. Yes; but continue; go right along with it. By that process, just to the amount that the man borrowed in those circulating notes, you have increased the circulating medium for doing business, for getting credit, 67 per cent. In other words, if that amount he puts in is $1,000 in a circulating note and he has got to keep $337 underlying it, you have increased the agency with which to do business just $667.

Senator REED. Yes; on a $1,000 note; certainly; I understand that.

Mr. FRENZEL. And you have increased the volume of the agency with which to do the business of the country just $667.

Senator REED. I understand that perfectly. That is what I have in mind.

Mr. FRENZEL. Whether he pays that note or not—he may not take up that note in that transaction.

Senator REED. Oh, no; he may not take up that note, but he may go and pay his note to the regional bank, and the regional bank may bring up another note of another customer the next day, but you

have, as long as that transaction is unclosed, increased the circulating medium to that extent, have you not?

Mr. FRENZEL. For that particular transaction or for any other transaction?

Senator REED. As long as the bank keeps that $667 that it got from the regional bank and has not retired it, the circulation of the country is increased that much.

Mr. FRENZEL. Only, Senator, I should like to put it another way, if you please. So long as that $1,000 of circulating medium is out, the circulation of the country is on a basis of $667 increase.

The CHAIRMAN. That is not all, Senator Reed. I call your attention to the fact that when that $667 is received by the country bank it becomes a basis of credit for four or five or six times that through reloans.

Senator REED. I understand that. We understand that when you get out a circulating medium it will be multiplied in the way of credits anywhere from once to a dozen times; generally, on the average, I think, about eight times.

Senator SHAFROTH. That is what Mr. Forgan said—eight times.

Mr. FRENZEL. In the center of a large city, you know, it would be only four times.

Senator REED. Anyway, without spending time on it, it increases the circulation, does it not? Now, we have got it increased. The more money there is in the country the more that money piles up—and there is a plethora of it—and it leads to speculation like they have in New York when they get too much.

Mr. FRENZEL. It tempts the speculators and the exploiters.

Senator REED. And the more money you have to speculate with the more you want to speculate with.

Mr. FRENZEL. That is the natural consequence.

Senator REED. Expanding the currency is a good deal like feeding a lion's cub meat. The more meat you feed him the more he grows and the more he wants. That is the trouble with what we call inflation, is it not?

Senator O'GORMAN. If you add that, there then comes a time when he can not get enough to keep going and the break occurs.

Senator REED. Yes. By this process we have an inflated currency—not by an automatic process at all, but simply because men bring up their notes and want it. Now, I want to know what there is to compel the retirement of that $667 just as soon as it is not needed in business, when you say to me in the same breath that the inflation of the currency tends to make speculation and that speculation multiplies speculation. What is the automatic process that brings it back? If you can solve that for me successfully, there will be a great trouble removed from my mind.

Mr. FRENZEL. Thank you, sir. That is a great question, and it would take, perhaps, a good deal more of a student than I am to present it to you in such a way that you would be satisfied.

Senator REED. We are just a couple of farmers, and we will try to talk so we can both understand.

Mr. FRENZEL. Naturally, it seems to me, going back to that note you spoke of, that that increases the circulating medium $667 that is issued by this agency which has authority under the law to issue it. Now, whenever it has finished its purpose, I take it it will find its

Senator HITCHCOCK. What is the second?

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Mr. McCulloch. Where would they get it?

Senator Hitchcock. That is what I am asking you, where would they get the money?

Mr. McCulloch. The banks of Indiana, of course, have to keep their money in use up to somewhere near the reserve required by law to make money, and it would be fair to assume that money was now, in a way, up to the point left for reserve, and I do not see where else they could get it unless they asked some people to pay off their notes.

Senator Hitchcock. What sort of condition would that produce? Suppose the banks of Indiana began to ask a few of their customers to reduce their loans?

Mr. McCulloch. It would, to that extent at least, make it perhaps a little hard for some of the communities, and the answer to that is that if the amount which is asked for, and especially if it were possible to find they did not need as much as or certainly not more than 10 per cent, that is indicated as the first call of the bill, that that would not be enough to be very pressing. And they could, in turn, in a very short time after they put in their money for the call, if it became absolutely necessary for the benefit of their community to get in shape pretty quick, borrow that back and overcome it in that way after a short temporary interval.

Senator Hitchcock. Have you more than one reserve city in Indiana?

Mr. McCulloch. Only one—Indianapolis.

Senator Hitchcock. Do you know what amount of money is on deposit in the banks of Indianapolis as a reserve of country banks?

Mr. McCulloch. Well, that would be a mere guess on my part, Senator. I, of course, might make a guess.

Senator Hitchcock. Assuming that it is $15,000,000?

Mr. Frenzel. About $15,000,000, I think, Senator.

Mr. McCulloch. No; he means only as reserve for the country banks. I would not think that much, but of course Mr. Frenzel, being in an Indianapolis bank, ought to know about that.

Senator Reed. You mean the country banks have in the city banks $15,000,000?

Mr. Frenzel. Yes.

Senator Reed. There is $10,000,000 in one bank in my town.

Mr. McCulloch. He is not talking about the total deposits, but he is talking of the reserve balances of the country bankers.

Senator Hitchcock. That is what Senator Reed refers to. Kansas City and Omaha—where I come from—are larger reserve cities than Indianapolis. I would assume they have about $15,000,000 on deposit of the country banks. Now, assuming that figure, what would the Indianapolis banks do in order to meet the checks which the country banks would draw if that $15,000,000 was transferred to the reserve bank?

Mr. McCulloch. They would do the same thing, I suppose. They would have to find that money some place, and they, in turn, would contract their loans a little.

Senator Hitchcock. How would that affect business conditions of Indianapolis?

Mr. McCulloch. Wait a moment; that is a contribution, isn't it? Would they have to contract their loans also, as well as the smaller banks? Yes; they would. You are right about that. Well, everybody admits who has studied this bill that temporarily—immediately after the bill went into effect—there would be quite a contraction of loans. I think anybody who has studied the bill can not get anything else out of it. That is the feeling of most people who have studied the bill, and it seems so to me. That would be only a temporary arrangement. In other words, this would be only a shifting of the balances to the reserve banks from somewhere else, and if the bill works, as we hope it may, we could shift around again. But during the interval there is no question about there being a contracting of the loans.

Senator Hitchcock. Now, as a banker, would you think it better to have that contraction made very gradually?

Mr. McCulloch. I think perhaps it would be better to have it made very gradual.

Senator Hitchcock. What are the banking conditions in Indiana now? Are the country banks rediscounting much of their paper?

Mr. McColloch. We have been during the last three months, yes. We discounted considerable paper.

Senator Hitchcock. Where do they rediscount?

Mr. McCulloch. With their different correspondents.

Senator Hitchcock. At Indianapolis?

Mr. McCulloch. At Indianapolis.

Senator Hitchcock. Chicago?

Mr. McCulloch. Chicago, New York, Cleveland, and Cincinnati. And the smaller banks, of course—for instance, our bank has 25 accounts with small village banks, etc., and they have some of their discounts with us. Fort Wayne has some close. Evansville and the middle-size cities, of course, have small banks around them, for rediscounts close at home, ordinarily.

Senator Hitchcock. Is it customary for the banks to rediscount to a greater extent than the amount of capital?

Mr. McCulloch. Sometimes they do. I do not say it is customary. It is a little out of the ordinary, I should say.

Senator Hitchcock. What would you say is the average discount of the country bank?

Mr. McCulloch. I should say one-half and not over two-thirds of the capital.

Senator Hitchcock. What would you say to the proposition if a subtreasury were established in Indianapolis for the purpose of affording an opportunity to the banks of Indiana to procure currency to the extent of 75 per cent of their capital upon seasonable demands at a rate of interest which would increase in accordance with the length of time they required the money? Would that meet the needs of the situation in Indiana?

Mr. McCulloch. It would help, certainly.

Senator HITCHCOCK. That is, allowing the banks to have all the facilities they now have, through their correspondents, and giving them this facility in addition. How many months a year do you think the Indiana banks would apply to that subtreasury for that purpose?

Mr. McCULLOCH. Well, of course, the greatest demand is during the crop-moving period, but that does not always follow. We have demands at other seasons of the year which it is pretty hard to specify when they may come or why they come, sometimes. Ordinarily it would be only once a year, stretched over the months, perhaps, from the first of July to the first of November or the middle of November. At intervals during those months. And, as I have stated there would be other times when some of it would be going on. In fact, I think there is a little of it going on almost all the year around.

Senator HITCHCOCK. What rate of interest do they pay on their rediscounts?

Mr. McCULLOCH. Well, that depends somewhat on the local conditions—on the amount of balance which they carry. The ordinary rate which they carry of interest is usually 6 per cent, and the bankers in rediscounting for each other usually get a little less rate than that. If they carry a pretty good sized balance with the bank from whom they are asking the accommodation, I would say the rediscount would not average over 5 per cent, sometimes more and sometimes less, owing to the conditions and the general rate of interest.

Senator HITCHCOCK. Would this requirement to subscribe 20 per cent of the capital keep many banks out of the new system?

Mr. McCULLOCH. I do not understand the question.

Senator HITCHCOCK. Would the requirement of the bill that every bank who joined could subscribe 20 per cent of the capital keep many of the banks out of the system?

Mr. McCULLOCH. That is a pretty hard question. I think, of course, it is pretty unjust to tell them that they must come in.

Senator HITCHCOCK. Suppose it is left optional; suppose it is made optional?

Mr. McCULLOCH. Oh, if it is left optional, I think many would come in, and perhaps more. Surely as many would come in if it is left optional as if they were compelled to come in.

Senator HITCHCOCK. How do you explain that?

Mr. McCULLOCH. Well, there is a feeling, you know—it is human nature; that is all, for them to feel as if it is a little bit of imposition upon them to be compelled to do a thing. Almost all American people do not like to be driven. They are very easy to lead, but somehow they revolt against being driven; that is all.

Senator HITCHCOCK. Are there any reserve requirements under the Indiana laws for State banks, now?

Mr. McCULLOCH. Country banks, 15 per cent; 6 per cent in the vaults and 9 per cent in the reserve banks. The reserve city banks are required to keep a reserve of 25 per cent.

Senator HITCHCOCK. And those country banks would still have to keep that same reserve if they did not come into the association, while remaining State banks?

Mr. McCulloch. Unless the State law was changed; yes. But I think the next session of the legislature, after this law went into effect, would very likely change that. That would be my guess. In other words, they would reduce the reserves to the same as the national banks. My reason for that is that formerly they did not charge as much reserve. They did not have the same requirements in regard to reserve as national banks, but they very soon made a law so that the State banks would be the same as the national banks. It is now practically the same.

Senator Hitchcock. Can the State banks keep among their reserve national bank notes?

Mr. McCulloch. I am not sure about that. I think they have to keep just the same kind of a reserve. I am not connected with a State bank, and I could not answer that. Mr. Frenzel belongs to a State bank, as well as a national bank, and he could answer the question.

The Chairman. Mr. Frenzel, you may answer the question, if you like.

Mr. Frenzel. Were you asking about the requirements of the national banks, when you asked the question, or the reserves under the State law?

Senator Hitchcock. I am asking about the State law as to State banks.

Mr. McCulloch. As I understand it, it is the same as national banks. The law in regard to the trust companies in the State of Indiana is a little different. They have a different law governing trust companies, but the State banks, as I understand it, have to keep the same reserves as the national banks under the Indiana law. I may be mistaken.

Mr. Frenzel. If you will permit me, it is 15 per cent of the commercial deposits.

Mr. McCulloch. That is the trust companies, but he is talking about the State banks.

Mr. Frenzel. The State banks. Oh, of course, they keep in the reserves national-bank notes or gold.

Senator Hitchcock. Any kind of money?

Mr. Frenzel. Yes.

Senator Hitchcock. Then you can keep national-bank notes as reserve?

Mr. Frenzel. Yes.

Senator Shafroth. I think it is universal in regard to State banks.

Senator Hitchcock. No; some States do and some do not. It is pretty general, however.

Senator Shafroth. It is pretty general. I did not suppose there was a single State that did not have that provision permitting national-bank notes to be used as their reserves.

Senator Hitchcock. I have no more questions.

The Chairman. All right, Mr. Frenzel.

FURTHER STATEMENT OF J. P. FRENZEL.

Mr. Frenzel. Mr. Chairman, has the committee any intention of asking me any questions?

Senator Reed. I want to ask you a few questions. How do you regard our banking system as a whole? Is it a good system or a bad

system? I do not mean whether it is a perfect system, but whether, taking it as a whole, it is a pretty healthy banking system?

Mr. FRENZEL. I do not think it is.

Senator REED. What is the defect you think exists that ought to be remedied, or the defects?

Mr. FRENZEL. I think the first one, which is a very serious one, is that you provide in the national-bank act for a circulating medium that is not flexible. That gets into a fixed form, as to amount, whether the needs of the country require it, or whether they do not require it.

Senator REED. Do you apply that, now, to the national-bank currency?

Mr. FRENZEL. Yes; the national-bank notes. That is part of the national-bank act.

Senator REED. The first proposition is lack of flexibility in the national-bank currency?

Mr. FRENZEL. Yes.

Senator REED. What is the next? That is No. 1, is it?

Mr. FRENZEL. That is No. 1.

Senator REED. And if that was remedied the principal evil would be gone?

Mr. FRENZEL. If that was remedied the principal evil would be gone; yes.

Senator REED. What is the next evil in order of importance?

Mr. FRENZEL. There is nothing in the system that provides for any distribution of resources for the general good, as between business done in the various parts of the country, through all of the national banks that are part of the system. In other words, speaking of it in a homely way, it is a system that requires every bank to stand upon its own bottom, without having the advantage of help, sympathy, and cooperation from any other bank in the system. Therefore the aggregate of the whole is not distributed and shifted from time to time where the temporary needs may call for it, but remains in every single individual concern only.

Senator REED. I do not mean to cut you off from a full answer, but I am trying to cover a lot of ground in a little time.

Mr. FRENZEL. Very good.

Senator REED. Let us see—you have a bank in Indianapolis?

Mr. FRENZEL. Yes.

Senator REED. In ordinary times your bank keeps on deposit a fund in one or more banks in Chicago and also in New York, do you not?

Mr. FRENZEL. Yes.

Senator REED. Do you in any other place?

Mr. FRENZEL. St. Louis. Those are the three reserve cities.

Senator REED. And in ordinary times you have no trouble in getting any accommodation you may want, within reason, of course, from any one of those sources, do you?

Mr. FRENZEL. No.

Senator REED. Therefore the difficulties you referred to in your last answer must be difficulties which cover the extraordinary or unusual situations?

Mr. FRENZEL. Oh, no; Senator. They are cumulative. They commence with a very little trouble, with a very little surplus of funds,

growing out of these large deposits, and they keep growing until you get——

Senator REED (interposing). To the danger line?

Mr. FRENZEL. To the place of the reaction and the acute stage which we call here, in this country, panics.

Senator REED. Yes.

Mr. FRENZEL. Now, don't you see, Senator, if that relation was homogeneous between all of these concerns, you know, that piling up at one time because of certain conditions of business, of large funds in New York, in the shape of deposits from country banks, or in Chicago or some other place, where they could not use it because the needs of business did not demand it, and where and because of that condition, you know, they are tempted to go into speculative ventures, would not occur?

Senator REED. Just to keep right at the point as nearly as we can, you say then money sometimes piles up in New York, and perhaps in Chicago or St. Louis, that there is no real demand for, and you think they get into speculation?

Mr. FRENZEL. Yes.

Senator REED. Of course, those banks would prefer something aside from speculation if they could get it, would they not?

Mr. FRENZEL. Yes.

Senator REED. Therefore I take it that when there is a surplus of money in Chicago, New York, or St. Louis your bank would not have the slightest difficulty in getting all the money it wanted upon any kind of reasonable terms?

Mr. FRENZEL. That is right.

Senator REED. Not a bit?

Mr. FRENZEL. No.

Senator REED. So that, if I get you, then, when money thus piles up there and the banks there can not use it and the banks anywhere else can not use it, then the temptation exists for these big centers to invest in questionable securities?

Mr. FRENZEL. I would not call them questionable securities, but in more speculative ventures.

Senator REED. In stocks and bonds. Now, if that money was not piled up there in that way that trouble would not exist, would it?

Mr. FRENZEL. No.

Senator REED. If you had a system—and it is only piling up there by a want of demand of the general banking system of the country for it?

Mr. FRENZEL. Yes.

Senator REED. So it simply amounts to a plethora of money at some season of the year or at some time?

Mr. FRENZEL. Yes.

Senator REED. If you had the money all in the hands of one bank that would be true, would it not?

Mr. FRENZEL. No.

Senator REED. You would have the amount of money.

Mr. FRENZEL. But do not confuse money with credits or circulating mediums. You would have an automatic way of reducing the surplus by retiring and canceling these obligations that would be out in the shape of circulating notes.

Senator REED. So that there ought to be a way, when the money piles up, automatically to retire it?

Mr. FRENZEL. That is the reason, Senator, I mentioned when you asked me that I believed one of the first and most serious defects was the fixity of our notes.

Senator REED. What I want to get at is how you propose to automatically retire as a plain, practical question. Let us drop all questions of definitions of money and different kinds of money, and all that sort of thing, and just say we have the currency we have now in the United States and you want to now fix a remedy onto this system just as we have it, and remedy it. How would you automatically retire the money that is piled up in New York, St. Louis, and other places and does not get back into the country banks?

Mr. FRENZEL. Be retiring it.

Senator REED. What would be the process of retirement? What is the means to be used?

Mr. FRENZEL. It would not go into the central bank—that is what you propose, if you please—it would not go into the central bank except by way of some transaction. When it goes in by way of that transaction, the central bank has got to give something for it. And where the central bank has its reserve on hand, it does not need that on hand and it cancels it. That is all. It is practically a bookkeeping entry, and instead of their being, say, a thousand of metallic currency and a thousand of bank notes, circulating notes, you have only, say, a thousand of metallic currency and you would have reduced, you know, the circulating exchange you have on hand.

Senator REED. Who is to do that?

Mr. FRENZEL. In the case which you propose, Senator, if I understand your question, the central bank; or, if you have some other agency, which can do that promptly and quickly it would be just as well.

Senator REED. Let us take this present system and forget we are talking about a regional bank system or anything else. Nobody wants to take money he gets and burn it up and destroy it, and, of course, therefore he keeps it and loans it out.

Mr. FRENZEL. Oh, yes; there is a way, Senator. They can send the notes back and destroy them.

Senator REED. For all practical purposes there is no way of retiring it. I of course know about the way you can retire a national-bank note, but there is no proposition in this bill that provides for their retirement, is there?

Mr. FRENZEL. Yes.

Senator REED. What is it?

Mr. FRENZEL. I think you will find in the bill there when they get back—in the first place, if one regional bank gets a note of another regional bank, it is under a penalty of 10 per cent if it uses it, and it must immediately send it back to the bank it is issued to and the bank it is issued to can take it, unless somebody comes there and asks for it; but if they do not ask for it, the purpose of that issue is gone and they cancel it.

Senator REED. Why would not that temptation exist just the same to take that and invest it or lend it to somebody who wanted money, who might be dealing in stocks and bonds?

way around back to the place where it came from, either by way of deposit or otherwise. That original agency, recognizing that there is no further use for that note cancels it and that will have the effect of reducing its liability, thereby automatically raising its metallic reserve. It will be deposited somewhere, Senator. The man will not keep it in his pocket; he will deposit it, and the bank will deposit it somewhere else, say, in another bank in Chicago. The Chicago bank will send it to New York, and New York will send it to the regional bank that is tributary to it, and that regional bank will have to send it back to the bank that issued it. And, as soon as that bank that issued it gets it in its hands, under the automatic operation of that clause, it will have to cancel it.

Senator REED. Let us trace that. Let us say this is a $1,000 note. It starts out from the regional bank in St. Louis. They give it to you, and you start it on its way rejoicing. There is not anybody in the whole world that can tell when it will ever get back to that St. Louis bank. It may make the rounds of all the banks in the country before it gets there. It might come back the same day. It might not be back in a year.

Senator O'GORMAN. Like a lost freight car.

Senator REED. Yes; as has been suggested, it would be like an old freight car that gets off on another line of railroad, and you can not find it for a long while.

Senator HITCHCOCK. A half of the circulation of the country is in the people's pockets all the time.

Senator REED. Yes; I will add that half of the circulation of the country is in the people's pockets. Now, have you any automatic regulation there that does not permit a very large inflation?

Mr. FRENZEL. Oh, yes; I think so. You are supposing a case, Senator, that is not likely. You can not speak of this thing in units of $5, $10, or $50 that men keep in their pockets; you must speak of it in greater units.

The man who comes to the regional bank at St. Louis and gets it, gets it now for some business purpose. He does not want it to eat or for an ornament. He wants it to pay off some debt that he owes to a private man. He pays that debt and that man deposits it in some St. Louis joint-stock bank or some private bank. That bank has no use for it, and he says, "I will send that to my correspondent, the Continental National Bank in Chicago." It goes there, and the Continental Bank in Chicago says, "We have no use for this; we will send it to the Hanover Bank in New York," and they do so. It goes to the Hanover Bank, and they say, "We do not have any use for this money; we will deposit it as a part of our transactions with the regional bank in New York."

Here it is. Now, what does the law say? Just as soon as it gets to that place they can not wait a minute. That must go back to St. Louis, and, automatically, just as soon as St. Louis issues it the bookkeeper is notified——

Senator REED (interposing). I understand the termination of it, but let us follow it and see if we are right about it.

Mr. FRENZEL. Well, what are you going to do with the money——

Senator REED (interposing). I am not trying to argue with you; I am seeking light.

The CHAIRMAN. Will you permit me to make a suggestion? In speaking of a note of this character, it may indeed, like an old freight car that is lost, go into somebody's pocket and be worn out there; but it is a volume you speak of, and the notes in the Federal reserve bank upon which these Federal reserve notes are emitted must be paid at a fixed time, and paid with currency, either with these notes or with legal-tender money, and therefore when those notes are paid the volume contracts by the retirement of a like volume of money.

Senator SHAFROTH. The 30, 60, and 90 day drafts.

The CHAIRMAN. Yes.

Senator REED. I am afraid of that. Please bear with me in my trouble here. I am trying to follow this $1,000 note. You take that $1,000 note; you get it in your bank, and you get 10 others like it. Now, you have a surplus in your bank which you can not use, and for business reasons—you are going to get about 2 per cent on those notes—you deposit them with your correspondent in Chicago.

Now, I think right here is where our chain breaks. If that bank will take those notes and pay you 2 per cent, it takes them because they are worth 2 per cent to it, and it proposes to loan them to somebody else for 4 or 5 per cent. It does not send them, as you indicate in your illustration, from bank to bank. It sends them to a bank where it is going to make money out of them, and any bank that is going to pay interest upon them is a bank that is not going to send them in for cancellation.

Senator SHAFROTH. It will have to pay a 10 per cent penalty if it goes out of the district.

Senator REED. Not as long an the note stays in the same district.

Senator SHAFROTH. That is true.

Senator REED. And no man would take it in another district if he had to immediately cancel it, and you would not send it to a district where it no longer brought any interest, because you paid value for that money.

Senator HITCHCOCK. As a matter of fact, Senator, the case is stronger than that. It is only the regional reserve bank which is required to send it in for cancellation. Any one of the 7,000 national banks or any one of the 17,000 State banks can use it just as an individual can.

Senator SHAFROTH. But it has got to be taken by any reserve bank in any district in the United States when it is presented to them for payment.

Senator HITCHCOCK. As Senator Reed says, if any bank in the reserve city accepts the deposit it will not necessarily put it with the reserve bank, but will lend it out again.

Senator SHAFROTH. That may be; but is not this the automatic control? You go to one of these reserve banks and present your 30, 60, and 90 day paper for discount, and they discount it. At the end of that time that has got to be paid, and that constitutes the transaction.

Senator REED. But, Senator, let me show you where I think you have overlooked something. We take a vast quantity of commercial paper down to these banks. Every bank does it, because it wants this money to use, and it can get it on very favorable terms. At once there is a very large volume of this money put out. Now, that money does not have to be retired until, through the accidents of business,

it gets into a Federal reserve bank, when it is sent back for retirement. In the meantime there has been another volume of this money issued—other volumes. Each day money is being issued and each day these notes, in the long course of time, will be coming back in for redemption. But in the system is there not involved the idea of multiplying our money by at least two?

Mr. FRENZEL. That would be true, Senator, if it were not a fact that some time or other somebody has got to pay back some obligation that he gave for the purpose of getting this note out in the first instance.

Senator REED. No; I do not agree with you.

Mr. FRENZEL. How are you going to give it to him first, Senator?

Senator REED. I am trying to solve this question; I am not trying to argue with you. I am stating it in this way, however, because I can better express it than by simply asking questions. There is no reason why your bank could not take $50,000 of good notes, go to the Federal reserve bank that may be established at Chicago, and get, we will say, $50,000 of currency. Of course, the gold reserve has got to be there. Every other bank can do the same thing. At the end of 30, 60, or 90 days you have to pay that. You have got to either pay it in cash or put up your notes, and, as you got the $50,000 and had it to loan out, of course you have the other notes. And as long as you keep $50,000 of notes there you will have this money out and you will keep it out. You are paying a very low rate of interest upon it, practically none.

Now, I insist that when your system is working that will double the present actual volume of currency or largely increase it. And so you have to have something added to your automatic machinery to make that money retire. The rate of interest is mentioned in the bill, but that is not automatic, that is a human agency. Some man has control, and wisely regulates it. If he does wisely regulate it he will force retirement. If he does not wisely regulate it we will have inflation. So it is not automatic; it is subject to human control, and human control is really the only control, as I see it.

Mr. FRENZEL. Of course, you can not go to a concern like the National Cash Register Co. and ask them to devise a machine that will work this thing out without some human guidance. You are correct.

Senator REED. I think you can——

Mr. FRENZEL (interposing). And therefore, that the condition you are proposing may not continue, you limit, in the first place, the kind of paper that you accept to a certain kind and quality and running a certain length of time. In other words, that extension of credit and accommodation has to be within the limits of what human experience says is about right, so it will not get into a positon where it has inflated the currency to such an extent.

Senator REED. You spoke of another limitation——

Mr. FRENZEL (interposing). And, Senator, in order that it may not go too far—the increasing of the volume of circulating medium upon which business is to be transacted and credit extended—you go farther than that and you provide a penalty if they do not keep up the reserve. That operates about as it does in other systems, you know. They make a certain charge of per annum interest for a

volume of circulating notes over and above a certain amount which they take as normal in the first instance.

Senator REED. Now, let me take those things up one at a time——

Mr. OSCAR NEWTON (interposing). Senator Reed, will you pardon me for making a suggestion there? This thought has occurred to me, that probably was taken up by the gentlemen from Indiana. The one thing that will operate to drive this $1,000 note back to the bank that issued it is the fact that it can not be held in any national bank as a reserve. Why should a national bank want to hold that note when it could send it in to the bank that issued it and get for it gold that it could hold in its vault and which would be a basis for credit and a basis for deposits?

Mr. FRENZEL. They might do that as we do now with national bank notes.

Senator REED. The suggestion is of value, but I want to go back and take these things up together. I admit that every time you require a 33 per cent gold reserve you have fixed a limitation which is almost mathematical in its certainty, because the gold production is limited, and the gold supply is limited. But, of course, if you are only required to keep 33 cents on the dollar and can issue 100 cents we must admit that that regulation will not prevent an immense inflation.

Mr. FRENZEL. That is right.

Senator REED. We admit that. While that is a check it is not a sufficient check.

Now, the next proposition is commercial paper. We have heard a good deal about prime commercial paper, paper such that the transaction wipes out. But everybody concedes—I have not heard you speak of it—that we do not propose to attach to this commercial paper a bill of lading or warehouse receipt, which absolutely stops the transaction at that point and pays it out, but that we are to take the notes that are regarded as commercial paper. That, of course, means that there is a very large volume of it and it, of course, means that nobody can tell how much there is of it and that there may be and undoubtedly is enoogh to vastly inflate the currency. So that is not a sufficient limitation, is it?

Mr. FRENZEL. No.

Senator REED. Now, you say the time of this paper is limited. But there is not any trouble in renewing, in various forms, the paper from time to time. As long as you have not got the warehouse receipt or the bill of lading attached, of course, the transaction may continue.

Now, my friend here, Mr. Newton, of Mississippi, suggested that national banks would not want to keep this because it would not be counted as a reserve. Let us grant that. That is one thing that would tend tend to drive the paper in, but do you not need something that will force it in, and can not that be found in the fact that when money has been out a certain length of time it must be penalized with an interest rate? Would not that, added to this bill, have a tendency to drive the money back?

Mr. FRENZEL. Yes; you have tried to meet that in your bill by this arrangement of a penalty for a reduction of the required reserve.

It is in your bill. You have to keep 33 per cent in the vaults or you have to pay a penalty.

Senator REED. But it is the 67 per cent above that I am afraid of, and I take it there is not a banker in this room that would seriously propose doubling the present amount of money or trebling it. That would not be a good thing to do.

Mr. FRENZEL. No.

Senator REED. Now, would you not meet that by a provision, first. that this money can not be used as long as it pays a rate of interest which is so high that a bank will not want it except when it really needs it, and by raising that rate the longer it keeps it out? And is it not necessary, in all seriousness—because a mistake here will be very serious—to add some such check as that to this bill?

Mr. FRENZEL. So far as I follow you, Senator, I will say this, that it is very necessary to have some agency—some power—by the exercise of which, as required by law, this inflation may be prevented. In other words, this additional issue of circulating medium must get back to its own place as soon as possible.

Now, your illustration, to my mind, presupposes a kind of banking that I should not like to subscribe to. In the first place, remember that if the power of issue is used it is because of the demand for some commercial or industrial or agricultural transactions or need. In other words, a participant bank, a stockholding bank, is not going to go to the regional reserve bank primarily and ask that notes be issued to it upon its own obligation, on proper collateral, or the discount of paper which it has in its vaults for the accommodation of its customer without a necessity for that condition.

Senator REED. Let me ask you if you do not mean by the word "necessity" an opportunity to reloan it on what it thinks is good security?

Mr. FRENZEL. That, I would say, would be very dangerous banking, because if that continued without some sort of check you would find that when the bank made its reports the controlling board would say, "Here, here; you are getting top-heavy; you have a lot of rediscounted paper"——

Senator REED (interposing). You know we are talking about automatic business now.

Mr. FRENZEL. Exactly.

Senator REED. I am not talking about this question of not having a wise board of control; because we are making a law now, and we might get an unwise board of control. The feature I have in mind is putting into this bill something that forces this condition, leaving a discretion somewhere, but that absolutely fixes a limit.

Mr. FRENZEL. I really do not know how you would find that.

The CHAIRMAN. That may not be without fixing in advance the limitations of human wisdom.

Senator REED. But we can now, in the cooler moments of the legislation, fix limits, I think, within which we may work with reasonable safety. We can at least find a safe limit. What I am afraid of is one of these great general booms that sweeps over a country——

Mr. FRENZEL. You may well be afraid of it.

Senator REED. That sweeps everybody off his feet; and as long as you limit your business to credit currency there is not much difference; but if you can keep on making money, and making money must consider whether that is not liable, when it is left absolutely

to human agency, to get into hands where there will be enormous inflation.

Mr. FRENZEL. I think you have in mind, Senator—if you will pardon me for suggesting it—that perhaps if you put a penalty on an issue beyond a certain amount which your judgment would tell you was a safe amount that might check such inflation as would bring about the conditions you suggest. For instance, you say, "You can have, up to $200,000,000, the privilege of issuing circulation, which must be based upon safeguards and upon these primary conditions." Now, you may also, for the purpose of an emergency, based upon that same safe reserve—and, by the way, I think it is smaller than 33⅓ per cent; I would rather see it higher. You may have also a privilege, to be used very, very carefully and cautiously, and only in certain conditions, of an additional issue based upon the same amount of metallic reserve, but you must pay 6 per cent on that as long as it is out. I notice in the bill that, in a way, you have tried to effect the same sort of thing by a penalty on your reduction of reserve below a certain percentage. If I had to say offhand, Senator—and I am not a student, you remember——

Senator REED (interposing). I know you are not; that is the reason I like you.

Mr. FRENZEL. I should say, offhand, that this would be the better way—the penalty of a rate of interest——

Senator REED (interposing). You know I like book men, but then I like these men that do things somewhat better than the men who write about what other people have done. Now, as a practical man, don't you think that some sort of check—I shall not say that you have outlined it or that I have suggested it—similar to the ones we have been speaking about ought to go into this bill to make it safe?

Mr. FRENZEL. Absolutely. If you are not certain this does it you must put it in, because if you do not you will have an era of inflation that will be awful just as sure as we are assembled here.

Senator REED. I thank you very much. I might go into many other matters, but I have taken sufficient time.

Mr. MCCULLOCH. I believe this concludes the Indiana delegation, as I understand it, and we want to thank the committee for their courtesy and kindness, and especially the chairman.

Senator REED. You won't go back home and tell them you did not get a hearing?

Mr. MCCULLOCH. We will say emphatically that the Indiana bankers would like to have this bill passed, with some few workable changes that we think will make it a success, and we want the bill passed as speedily as can be done and make it a good bill, and we will help you in any way we can to make it a success.

Senator REED. You would rather we found out the mistakes now than later?

Mr. MCCULLOCH. Surely; you are doing exactly right.

STATEMENT OF OSCAR NEWTON, PRESIDENT OF THE JACKSON BANK, JACKSON, MISS.

Mr. NEWTON. Mr. Chairman and gentlemen of the committee, it makes a banker who has the interests of his depositors at heart feel very comfortable to see the great interest that you gentlemen are

taking in this measure and the safeguards you are endeavoring to throw around the currency of the country. That is absolutely necessary, for at times past we have seen even our United States notes fall below par, and the notes of many States worthless. It reminds me of a story I heard not very long ago. There was a steamboat captain going down the Mississippi River with an old wood-burning steamboat and he saw some wood on the bank, and he wanted to buy it. This was in the days when notes were passing below par. He drew his boat up to the bank, and asked the old woodsman what he would sell his wood for. He replied, "In gold, a dollar and a quarter a cord, in greenbacks, cord for cord." [Laughter.]

Now, this bill in the main meets with my hearty approval. I do not attempt to represent all of the State bankers of Mississippi, but speaking for myself, I should like to see such a bill enacted as would be attractive and draw into the system all the State banks. I believe this will be necessary to make the bill a complete success. When I speak of the State banks I mean those having a capital of over $25,000.

The CHAIRMAN. What changes do you think ought to be made?

Mr. NEWTON. The changes which I think ought to be made are two. I think that the exchange provision would keep out of the system all of the State banks in the State of Mississippi, and there are 331 against 31 national banks.

Senator REED. Only 31 national banks?

Mr. NEWTON. Only 31 national banks and 331 State banks.

To make my remarks very brief, I would say that if this provision on page 33 of the bill were amended by striking out the last word in line 15, the word "upon"——

The CHAIRMAN (interposing). "Upon any of its deposits"?

Mr. NEWTON. "Upon any of its deposits"—the first four words in line 16.

Then on page 34 the words in lines 3, 4, and 5, reading:

And may also require each such bank to exercise the functions of a clearing house for each member bank.

If this provision was stricken out I believe it would be attractive to most of the State banks of Mississippi.

There is one other provision that we object to, and that is after 36 months all member banks are required to keep in their vaults or in the Federal reserve banks 12 per cent of their deposits. I believe that this is impounding—and I use the word seriously—too much of a bank's working capital, none of which it can use at any time. I believe that if 4 per cent of a bank's deposits—and I am speaking now of country banks—was kept in vaults and 4 per cent in the Federal reserve banks and 4 per cent allowed to be kept with its approved correspondents it would make the bill much more attractive. With these two provisions, which I consider the most important, corrected, I believe that a large number of the State banks of Mississippi would join the association.

Senator HITCHCOCK. Your last objection is based upon your desire to have the banks privileged to keep a larger proportion of their reserve outside of the reserve cities?

Mr. NEWTON. Yes, sir.

Senator HITCHCOCK. Of course you realize that that would interfere with the mobilization of the reserves?

Mr. NEWTON. We think, however, it will furnish sufficient capital to borrow on, because we believe if you make that correction in the bill it will be so attractive that it will bring in a larger number of State banks, over which you have no control, except that you may approve them.

Senator HITCHCOCK. Why do you say the State banks are so anxious to keep a part of their reserves outside the reserve banks?

Mr. NEWTON. For two reasons. The first is that if the exchange is eliminated it will enable us to keep such balances with our correspondents as we can make trades with them; we can control their collections.

Another is that there are times when we might need money, when such collateral as we would have might not be entirely acceptable to the Federal reserve board, and we have had years and years of connection with our correspondent banks. They know us personally. Frequently they loan on the character of the bank, on its officials, rather than the collateral it presents, and we believe it would be easier——

Senator HITCHCOCK (interposing). Is there any objection among the banks of Mississippi to the provision requiring them to subscribe 20 per cent of their capital?

Mr. NEWTON. There is some objection from the national banks and from some of the State banks. I, myself, would prefer that the capital be fixed at 10 per cent, 5 per cent to be paid in with the application and the other 5 per cent to be paid in in 60 days.

Senator HITCHCOCK. Where will the Mississippi banks procure the money with which to make the payment of the capital?

Mr. NEWTON. It will come from our correspondents.

Senator HITCHCOCK. You have sufficient in your reserves at the present time to provide for that payment of money?

Mr. NEWTON. I think we have. Of course, at this season of the year the cotton crop is beginning to move, and many of the banks are borrowing money, and the State banks would probably not join the association just at this time, because they would hardly care to borrow. They would probably wait until they had paid their bills payable and had a surplus on hand.

Senator HITCHCOCK. It has been stated that instead of allowing the national banks a year in which to join they should be required to decide within 90 days.

Mr. NEWTON. I have not studied the bill with reference to the national banks as much as with reference to myself, being a State bank. I have not given that matter any consideration.

Senator HITCHCOCK. As a State banker, how soon would your bank probably decide to join?

Mr. NEWTON. If these two changes were made in the bill, we would join at once. We have bills payable, and we have at this time a large reserve. We have not borrowed any money for two or three years.

Senator HITCHCOCK. How does it happen that there are so few national banks in Mississippi?

Mr. NEWTON. For the reason that our country is an agricultural country and the best loans we have presented to us are the farmers'

loans, and the farmer secures his loan with a mortgage on his land He frequently borrows money in March and April and makes the notes payable in October, November, and December.

Senator REED. Where are you going to get your commercial paper to come in?

Mr. NEWTON. We objected to the 45 days that was originally in the bill, but when it was amended to 90 days we calculated we can come in, because we have some commercial paper and we do not need money until about July and August, and we will have a good deal of farmers' paper maturing and bills payable for agriculture, as well as commercial paper. It has 90 days to run. The bill has been amended, Senator Reed.

Senator HITCHCOCK. What do your State laws provide in regard to the reserve of the State banks?

Mr. NEWTON. Our State laws are, I regret to say, very inadequate. We hang our heads in shame when we say we have practically no banking laws now, but at the next session of the legislature there will be a law enacted, because there is a committee appointed now from the two houses of the legislature preparing a bill to be submitted, and we feel sure the bill will be enacted.

Senator HITCHCOCK. You say there is no requirement as to reserve?

Mr. NEWTON. None at present.

Senator HITCHCOCK. What amount can you lend to one borrower?

Mr. NEWTON. It is not regulated by law at this time.

Senator HITCHCOCK. Are there any failures in the State?

Mr. NEWTON. We have had some. One other reason why we believe that it will be necessary for the State banks to join in order to make this bill work satisfactorily is the reason that it will popularize the measure. We believe the people of all sections of the country, particularly in the agricultural sections, will appreciate the benefits of the bill, and any public measure that is popular usually succeeds.

Senator HITCHCOCK. As a matter of fact, then, if not of law, what reserves do the banks in Mississippi contain?

Mr. NEWTON. We will average from, I should say, 12 to 30 per cent.

Senator HITCHCOCK. How are they divided? How much is probably kept in the vaults and how much in reserve cities—any of the reserve cities?

Mr. NEWTON. It depends on the location of the bank. If it is in a very small town, during the summer season when business is dull, the bank would keep a very small amount in cash. It would keep most of its available funds with its correspondents in New Orleans, Memphis, St. Louis, and New York. In the winter season when crops are moving it is necessary for us to keep larger cash reserves to meet pay rolls for labor and for the purchase of cotton.

Senator HITCHCOCK. Where do you discount most of your paper?

Mr. NEWTON. As I stated already, our own bank has not borrowed any money for three years, but we would discount in New York, St. Louis, New Orleans, and Memphis.

Senator HITCHCOCK. Some banks go to one center and some to the other?

Mr. NEWTON. Yes.

Senator HITCHCOCK. And some bank use all three?

Mr. NEWTON. Yes.

Senator HITCHCOCK. What rate of interest do they get on such rediscounts?

Mr. NEWTON. It varies with the size of the bank and the responsibility of the bank, and with the balance that is kept. I would estimate that from 4½ to 6 per cent.

Senator HITCHCOCK. Do you have any idea how much of a line of discount the average bank requires?

Mr. NEWTON. Some large banks who handle a great deal of cotton frequently borrow as much as two or three times the amount of their capital during the crop-moving period.

Senator HITCHCOCK. And what length of time does that cover?

Mr. NEWTON. About four months.

Senator REED. I want to see whether you are out of trouble or not. You loan nearly all of your money to the farmer down in Mississippi. You do as they do in some other southern cities. A farmer comes in in the spring of the year and wants to make a crop, and arranges with you to carry him through the season. You loan him the money and you take mortages, sometimes?

Mr. NEWTON. Yes, sir.

Senator REED. You take a mortgage on a cotton crop?

Mr. NEWTON. Yes, sir.

Senator REED. That is about the best kind of a security you can get, provided the crop comes good?

Mr. NEWTON. Yes, sir.

Senator REED. Those are the best class of securities you have in your bank?

Mr. NEWTON. We rarely loan only on that crop.

Senator REED. And your farmers' loan would be called the better class of securities?

Mr. NEWTON. Yes, sir.

Senator REED. Your commercial loans are limited; you loan to the local merchant at times?

Mr. NEWTON. Yes, sir.

Senator REED. Of course, when the merchant buys goods he has to have a little money; he needs the money. That is about the only kind of commercial transactions you have, is it not?

Mr. NEWTON. Yes, sir. We have some lumber accounts.

Senator REED. You loan lumbermen?

Mr. NEWTON. Occasionally.

Senator REED. You do not have in your bank very much business where a man will buy cotton, ship the cotton, draw for the money, and have you carry him during that interval. You do not have much of that?

Mr. NEWTON. Yes; there is a great deal of that.

Senator REED. It comes at only one season of the year?

Mr. NEWTON. It comes at only one season of the year, the fall and winter season.

Senator REED. It comes after you need the money, does it not?

Mr. NEWTON. We need the money most at that period.

Senator REED. And you have some of the paper?

Mr. NEWTON. Yes, sir.

Senator REED. You spoke about agricultural paper. Of course, agricultural paper is a new term, at least to me. I do not know what it means. I want to read you this section of the bill:

> Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transaction.

Of course, loaning to a farmer to carry him through his crop is not a commercial transaction?

Mr. NEWTON. No.

Senator REED. It continues "that is"—that means the same as though it said "that is to say"; "notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or may be used, for such purposes."

I do not know, I will say to you frankly, what construction might be put on that, but it strikes me that the controlling feature of that phrase is found in the words "arising out of commercial transactions," and the following words, "that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes," would be qualified and they would have to partake of a commercial nature, and not be a mere loan to a farmer in carrying him through his crop, because it admits that——

Senator SHAFROTH (interposing). Does it mean for the sale of wheat that a draft is drawn in that way that it becomes a commercial transaction?

The CHAIRMAN. That is intended to be as broad as it could be written.

Mr. NEWTON. That is one reason why I favored a regional reserve bank. We would have directors elected in our own region who are familiar with the needs of our section, and I believe that those men would not discriminate against the very best paper which we would get.

Senator REED. That is true; nobody ought to do it. But if the bill is so plain that they could not do differently, of course, wherever they came from they would be obliged to follow the law.

Senator SHAFROTH. Before you go into that, I think the clause following ought to be read. Does not this give a pretty wide latitude: "The proceeds of which have been used, or may be used, for such purposes, the Federal reserve board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this act." It says up above, the same section, "notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, the proceeds of which have been used, or may be used, for such purposes."

The CHAIRMAN. That is evidently too broad.

Senator REED. The language there now either means one of two things; it either means commercial paper as it is ordinarily understood, representing a commercial transaction, and is intended to include as a commercial transaction money which might be loaned for moving cattle, moving cotton, or something of that kind, and is limited to the thing actually in commerce. It either means that or else it is so broad it will cover every transaction in the country.

Mr. NEWTON. Except stocks and bonds, which are prohibited.

Senator REED. Yes. Have you any suggestion as to that language; and if you do not care to make it now, and would like to have time to think it over and write your suggestion we would be glad to have it.

Mr. NEWTON. I would prefer to write it out.

Senator SHAFROTH. Right there, Senator Reed, if this is a limited power which is given would not that have a tendency to check the quantity of money which can be taken from the regional reserve banks?

Senator REED. Yes; just in proportion as the paper which can be taken to the bank is limited, of course, that limits the power. I believe that language might be easily construed to admit any kind of paper, and I think we ought to give it careful thought.

The CHAIRMAN. We will now hear you, Mr. Dickson.

STATEMENT OF MR. T. H. DICKSON, SECRETARY MISSISSIPPI BANKERS' ASSOCIATION, JACKSON, MISS.

Mr. DICKSON. Mr. Chairman, I am not an active banker, but merely an association worker. I am secretary of the Mississippi Bankers' Association, and I came up here by the instruction of our executive committee to express our sentiments upon one particular part upon which the members of our delegation from Mississippi have touched, and that is the question of exchange.

As Mr. Newton has told you, we have only 31 national banks in the State, most of whom are members of our association, and we have 331 State banks, and as an association we are very strongly opposed to this exchange clause, and I will direct most of what I have to say in that direction.

There was a meeting of the executive council of our association on the 24th of September, at which meeting a resolution was passed instructing me to come to Washington simply to give an expression of the views of our association to the effect that we would like to have that clause eliminated from the bill, or at least such feature of it eliminated from that clause as would force the handling of individual checks of any Federal reserve bank shareholder holding those checks at par through a Federal reserve bank, and I believe, as a matter of current comment, that the attitude of the State banker toward this bill, those who have given it considerable thought, is largely as outlined by Mr. Newton. I believe they would make up their minds to come in immediately should that clause be removed. We would like to have that clause either removed or changed very much, and perhaps one or two other minor changes in the bill which would make our bankers feel that it was sufficiently attractive for them to come into the system.

I feel that that clause as it stands now would operate as a very serious barrier to the State banks of Mississippi wishing to come in. If there are no questions which the members of the committee desire to ask me, that is all I have to say. I thank you very much, Mr. Chairman, for the privilege of making this statement.

The CHAIRMAN. We are much obliged to you, Mr. Dickson.

We will now hear from Mr. Scott, of Texas.

STATEMENT OF J. T. SCOTT, VICE PRESIDENT FIRST NATIONAL BANK, HOUSTON, TEX.

Mr. SCOTT. Mr. Chairman, in order that I might put these views in as concise form and as short space as possible I reduced some suggestions to writing. I would like to state, however, before going further, that the First National Bank of Houston, Tex., has a paid-in capital of $2,000,000, surplus and undivided profits of $350,000. Our deposits range from $10,000,000 to $12,000,000. We have our circulation outstanding amounting to about $2,000,000.

(The paper mentioned by the witness follows:)

The Glass-Owen banking and currency bill as it stands to-day is not far from a workable basis, but in order that it will not prove too great a burden upon the individual banks throughout the country to qualify themselves for participation in the plan proposed, also that it may simplify the change from our present system to the new, some further modifications of its provisions are quite desirable. I do not mean by this to imply that the plan as now proposed without further changes would prove a failure, for there is no question but that it is a decided improvement over our present system, and would, in operation, give the business world, and the people as well, relief in a large measure from the evils with which we now contend. I believe, however, that certain further changes might and can be made which will greatly improve the practical operation of the plan; will render it the easier for the individual banks to participate; make them more ready to respond; and such changes will do no violence to the proposed bill or to the opinion of those who champion it. The changes I would suggest are as follows:

(1) Required subscription to the capital stock of the Federal reserve banks should be reduced from 20 per cent, as now proposed, to 10 per cent.

It is required under the proposed bill that each national bank shall subscribe to the capital stock of the Federal reserve bank of its respective district a sum equal to 20 per cent of its own capital stock, one-half of which is to be paid in and the remaining one-half to become a liability and to be subject to call and payment when necessary. If there was the remotest possibility that the subscribing individual banks would ever be called on to pay in the 10 per cent additional provided for in the bill, thereby in the end contributing a sum equal to 20 per cent of their capital stock in the capital stock of the Federal reserve banks, this requirement alone would so extremely penalize the resources of the individual banks of the country as to render the plan unattractive to them, no matter how much of inducement there might be otherwise offered. As a matter of fact, the paid-in subscription of 10 per cent would be more than amply sufficient for the purposes, and the bill should be changed so as to strike out the double liability, as it is now seriously objectionable, no matter how remote the possibility of its ultimate payment may be. The average bank is willing to supply of its own capital stock an amount equal to 10 per cent for its contribution to the capital stock of the Federal reserve banks, but there is serious objection to the continued liability of an additional 10 per cent, or any part thereof.

(2) Provisions requiring each Federal reserve bank to handle miscellaneous checks at par for member banks should be eliminated; same, however, should apply on drafts of member banks on other member banks.

The provisions in the proposed plan requiring the Federal reserve banks to handle miscellaneous checks for its members is founded on the wrong premises and should be stricken out. It is right and proper that any member bank should be permitted to send in to the Federal reserve bank of its district its own checks or drafts on any other member bank in that district, or upon those in any of the other districts, and receive credit for same, but the large volume of sundry and miscellaneous checks should not under any circumstances be handled by those reserve agencies. The Federal reserve banks should not invade the domain of private banking in this or any other respect. They are designed and created for other functions more sacred and requisite for the welfare of the Nation, and if permitted in any respect to handle any business whatsoever rightfully belonging to the individual commercial banks, they would under the same hypothesis of reasoning be entitled to engage in other lines of private endeavor at their pleasure.

(3) Reduce number of Federal reserve banks from not less than 12 to the lowest possible number, not to exceed 5, and limit the number of branches of each Federal reserve bank to 1 for each $1,000,000 of the capital stock of said Federal reserve bank, instead of 1 for each $500,000, as is now provided.

The main object of creating those Federal reserve banks is to mobilize the present scattered reserves of the banks of the country into some central points, where they can be utilized in a legitimate way, instead of as under the present system locked up in the several thousand separate banking institutions of the country, serving no useful purpose, either in times of commercial prosperity or in those of business depression. The reserves thus mobilized will form a fund as a basis for the discounting of commercial obligations of credit and furnishing against same, through the subscribing member banks, such circulating notes as may be required at the hands of commerce. In order that these improved and requisite facilities may be accessible to the various individual banks of the entire country, it does not necessarily follow that there must be created and established any great number of these agencies or branches thereof throughout the country to meet the needs. The fewer the number the less will be the cost of their maintenance, and likewise more easily their proper supervision.

(4) Incorporate in the law itself some of the rights and privileges of the individual member banks and give to the local board or directors of each Federal reserve bank a wider scope of authority in the management of their respective institutions.

The law as is framed under the proposed plan is wholly silent on the obligation that will rest upon the Federal reserve banks, through the head board of control, to provide in a fair and equitable way the more important facilities said member banks will from time to time require. As it is now provided, everything will be left to the discretion of the head board of control, and the member banks have no expressed or implied rights other than those that may be extended them by this board at its pleasure. The law itself should definitely fix the rights of the individual members in the more important requirements, such, for instance, as to the amount of discounts which member banks in good standing could not only offer and expect to receive credit for, and through said credit circulating notes, if desired, but that they would under the law have the right to demand the maximum when desired as their inalienable right under the provisions of the law. Beyond this amount, which might be termed the pleasurable limit of the individual member, it would then come within the discretion of the board as to whether the excess should or should not be granted. There should be definitely fixed somehow or somewhere, so that each member bank could rely upon its discounts being accepted up to some given sum, when such paper as is eligible is sent in for discount, instead of awaiting in due course the fate of such remittance at the hands of the board, as now provided for in the bill.

Those are the four suggestions I have. Otherwise I rather believe the plan as it now stands is worthy of approval.

Senator HITCHCOCK. Do you think anything should be stipulated as to the rate of interest the reserve banks should charge the individual bank?

Mr. SCOTT. I think the rate of interest should be that prevailing in the district at the time the limit is asked for. For any excess which might be asked for, for an amount over and above that amount, I think it might be right and proper that such member should be charged a higher rate of interest.

Our capital is $2,000,000, and if it were fixed in the law that we would be entitled to receive $2,000,000 of discount at any time we have need of them, and that there was some obligation resting upon the Federal reserve bank through the head board of control to furnish us with that facility, we should have that amount at the prevailing rate in the district when the paper was sent in. If we wanted more than that, if we had need of an additional $500,000, I think we should be charged a higher rate for the use of that additional $500,000; say, at the rate of 1 per cent per annum for the first month, if the prevailing rate was 5 per cent, we would be charged 6, and for

the second month at the rate of 7 per cent, and if the third month at the rate of 8 per cent. While under this plan it is very desirable that credit facilities should be easily obtained, at the same time I think it is likewise desirable that there be a check somewhere to what might possibly lead to inflation.

Senator HITCHCOCK. I am very glad to hear you say in such strong terms that you think the individual bank should be guaranteed as a matter of right.

Mr. SCOTT. If they are not guaranteed, what is there?

Senator HITCHCOCK. That is one of the serious criticisms which should be made of the bill now.

Mr. SCOTT. Under our present system we have the privilege of borrowing up to a certain amount. The system is full of instances where a member bank knows they can do this and can not do that.

Senator HITCHCOCK. How would you provide a standard by which the paper that you offer would be judged?

Mr. SCOTT. I think the paper we should offer would be passed on by the board in our district. I have made the contention that a wider scope of authority should be lodged in the hands of the directors of each Federal reserve bank.

Senator HITCHCOCK. Of course, those directors could say your paper is not good, and in that way cut down your discount?

Mr. SCOTT. Well, I do not think we can assume they are going to do that. A bank in good standing with the department they will know.

Senator HITCHCOCK. What would you think of standardizing the paper to some extent by requiring national-bank examiners to supply the Federal reserve bank with lists of paper?

Mr. SCOTT. You mean desirable accounts from each district?

Senator HITCHCOCK. Yes; to O. K. it. Certain lists.

Mr. SCOTT. Yes; I think the bank examiners should know and be satisfied with the paper they passed upon.

Senator HITCHCOCK. Do these examiners of the comptroller's office acquire a knowledge of the paper in the district?

Mr. SCOTT. At first they are not able to judge wholly as to the character a bank has. They have to learn that by experience. They are careful to make inquiry of their commercial earnings, the commercial ratings of the various firms in the district or in the community, and if a loan occurs to them to be excessive they do not hesitate to point it out, and they make considerable inquiry about all the large loans.

Senator HITCHCOCK. As I understand it, they keep lists which they turn over to the comptroller and also preserve for themselves.

Mr. SCOTT. They do, and they keep such lists for other examiners. For instance, if another examiner in the district follows the preceding examiner he is supplied with the lists of the previous examiner.

Senator HITCHCOCK. That being the case, what would you think of a plan whereby a subtreasury could be established in Houston, and perhaps one or two other places in Texas, to which the national banks of that State could apply when they wanted an advance, say, equal to 75 per cent of their capital, and in that subtreasury have a representative of the board who would act upon the paper, and who would be assisted by the previous examinations and records made by bank examiners? Could that subtreasury advance the currency of the

United States and of the banks, in a similar way, to those people with those facilities?

Mr. SCOTT. That might serve the purpose during periodical times of stress.

Senator HITCHCOCK. Why limit it to times of stress; why not have it as a constant resource that could be applied just as readily as a reserve bank?

Mr. SCOTT. It is not so much the need of an additional currency that we find our present system is a failure, Senator. I think at most seasons of the year we have ample currency, but what we need is more credit facilities.

Senator HITCHCOCK. Of course actual currency would do for you just as well as credit?

Mr. SCOTT. I think I would rather have credit than currency.

Senator HITCHCOCK. When you have a demand for money what your borrowers want is the money, is it not?

Mr. SCOTT. No.

Senator HITCHCOCK. They want the credit?

Mr. SCOTT. They want the credit.

Senator HITCHCOCK. If you had the money, you could give them the credit, could you not?

Mr. SCOTT. Yes.

Senator HITCHCOCK. So that if you could get the money, which I will call currency, of the subtreasury in Houston, why would not that supply all needs?

Mr. SCOTT. Well, as I remarked just now, that would be a temporary expedient to take care of us until we get something better.

Senator HITCHCOCK. Suppose you could go to it at any time, why would not that be just as good as any other place of resort?

Mr. SCOTT. There are some functions which these reserve banks or central banks will be expected to perform other than the issue of currency. You see, if this reserve bank was established and we sent on $1,000,000 of our paper, the chances are we would not ask for currency. What we want is credit.

Senator HITCHCOCK. To check against?

Mr. SCOTT. To check against.

Senator HITCHCOCK. And the only purpose of checking against it would be for use in making loans?

Mr. SCOTT. We want it, of course in such shape that if we had calls for the currency itself we would have somewhere, some place, to go and get it; but what the country needs at this time is not more currency, it is more credit.

Senator HITCHCOCK. It does have need for more currency?

Mr. SCOTT. Only at times when there is fear of a panic and the people have become alarmed at the situation and begin to withdraw their funds.

Senator HITCHCOCK. Currency performs the function of credit, does it not? It would give you the loanable funds, exactly as credit would, would it not?

Mr. SCOTT. As a matter of fact, more than 90 per cent of our deposits are subject to check, and against which, except in times of stress, we would not be called upon to pay out a single dollar of currency, unless perchance a depositor needed the currency to meet some obligations, notes or bills. Ninety per cent of our depositors ask

for a credit extension. For instance, a customer may come into our bank and make a note for $10,000, and it is placed to his credit. He immediately can step on the outside and give a check for $5,000. That check may be presented by the holder. He may have need for the money, and he takes the $5,000 in currency out of our bank, but otherwise, as a matter of fact, he has not received $1 of currency.

Senator HITCHCOCK. I can not understand your reason for saying there are times you prefer credit to currency. It seems to me currency performs every possible function of credit.

Mr. SCOTT. It is not as convenient to commerce as credit.

Senator SHAFROTH. But it permits you to build up credit on it to the extent of three or four to one?

Senator HITCHCOCK. Explain why it is not as convenient as credit.

Mr. SCOTT. There are very few transactions carried out by currency.

Senator HITCHCOCK. Let me assume a case in which you need $1,000,000 additional in your bank.

Mr. SCOTT. Yes.

Senator HITCHCOCK. You need it for one of two purposes, either to pay depositors or to advance to borrowers.

Mr. SCOTT. Yes.

Senator HITCHCOCK. Those are the only conceivable cases. If you had currency, why would not that serve either of them?

Mr. SCOTT. Well, if we had the credit to draw against it would be a more convenient form.

Senator HITCHCOCK. I am asking you why currency would not serve the purpose.

Mr. SCOTT. It might, of course.

Senator O'GORMAN. Have you any doubt about it, that it would serve both purposes?

Mr. SCOTT. Have I any doubt?

Senator O'GORMAN. Yes; that the currency would serve both of the purposes indicated in Senator Hitchcock's question?

Mr. SCOTT. It would not be as convenient, of course, as credit.

Senator HITCHCOCK. Explain why.

Mr. SCOTT. Suppose, for instance, one of our customers came in and asked for $1,000,000 to be put to his credit. It is a commercial concern. They have some obligations for purchases of material and things of that sort to meet in New York, and they want New York exchange for $400,000 at a time when they are moving the crops. We might find it necessary to rediscount some of our paper to meet that extraordinary payment; but he does not want currency; he wants New York exchange.

Senator HITCHCOCK. Why could you not have the subtreasury in Houston wire the subtreasury in New York to place it to your credit there?

Mr. SCOTT. Well, there would simply be the cost of transportation of the money from one part of our country to the other.

Senator HITCHCOCK. You will have, in any case, if you are doing business with the Federal reserve banks to pay it anyhow.

Mr. SCOTT. Not if we send in our notes for credit. It does not mean we have got to take right back the currency for it, as I understand the bill.

Senator HITCHCOCK. That is true. But in all banking transactions some one has to pay the cost of transferring currency to make the balances good. You can swap credit as much as you please, but there comes a time when the actual balance must be met by real currency.

Mr. SCOTT. That currency is in all forms, of course, and a small portion of the whole.

Senator HITCHCOCK. Can you conceive any other objection to the plan I have suggested except there might be times you would prefer credit to currency?

Mr. SCOTT. No; I do not know that I can.

Senator HITCHCOCK. That is all.

Senator REED. You spoke about the bankers having an absolute right to go and get money. You say in your paper here as a heading, which you read to us:

> Incorporate in the law itself some of the rights and privileges of the individual member banks, and give to the local board of directors of each Federal reserve bank a wider scope of authority in their management of their respective institutions.

And then, in your note on that, you say:

> As it is now provided, everything will be left to the discretion of the head board of control, and the member banks have no expressed or implied rights other than those that may be extended to them by this board at its pleasure. The law itself should definitely fix the rights of the individual members in the more important requirements, such, for instance, as to the amount of discounts which member banks in good standing could not only offer and expect to receive credit for, and through such credit circulating notes if desired, but that they would, under the law, have the right to demand the maximum when desired as their inalienable right under the provisions of the law.

Of course, that means that you want a system by which, if you take down good notes up to some certain fixed point, you have a right to demand and receive the money.

Mr. SCOTT. We won't have to wait several days to find out whether they are going to be accepted or not.

Senator REED. You want a right to go and demand it?

Mr. SCOTT. Or to send the paper by mail and draw the drafts against the reserve banks—against the paper.

Senator REED. Of course, whatever right was extended to your bank would be extended to all banks.

Mr. SCOTT. Of course.

Senator REED. So that you have a condition, then, where all banks of the country would have a right to demand certain advancements, of course limited in some way by the capital stock of the bank in question?

Mr. SCOTT. Yes.

Senator REED. You would make it the duty of this bank to pay those demands?

Mr. SCOTT. And furnish you with that line of credit.

Senator REED. Suppose they did not have the money?

Mr. SCOTT. Well, they must not fix the limit beyond a sum where they would not have it.

Senator REED. There would necessarily be no money except Government money on hand at any time. This Federal reserve bank has not any sources of income except two: First, its capital that is contributed to its organization. Of course, it is very small as compared with the aggregate of the deposits of the country or the busi-

ness of the country. Second, 6 per cent on the deposits. As soon as those two sums have been paid in or either of them has been paid in, there is nothing to hinder the bankers borrowing it back, is there?

Mr. SCOTT. You could borrow back not only that sum but double the amount, less 33⅓ per cent or 50 per cent reserve, whatever that is.

Senator REED. There must be a 33⅓ per cent reserve back of any moneys that are issued. But, up to this time, they have not issued any moneys.

Mr. SCOTT. We are not going to borrow back the money we put in?

Senator REED. Why not? The very thing I understand to be praised in this bill is that you have your money and you do not have it. You take your reserve out of your bank and put it over into this bank.

Mr. SCOTT. And then borrow that same money back?

Senator REED. And then borrow that same money back and use it, as long as you have what is called the legal reserve under this bill.

Mr. SCOTT. I do not understand you can borrow back the money you put in.

Senator REED. There is nothing to hinder it.

Mr. SCOTT. You are going to issue notes; the notes are to be issued against this sum total that has been put in there as a basis.

Senator REED. No; it does not follow that a single reserve note will be issued to you or to any other bank unless the managers of the bank want to issue it, and it is presumed you won't issue money as long as there is plenty of money on hand. Now, you draw the money out. I am just trying to see if we could put your plan into action. There are some things about it I like. But if you take a bank that has $5,000,000 of capital and $20,000,000 of reserve, then it has 600 banks all members, and all have a right to draw back if they have a speedy necessity for money, would they not?

Mr. SCOTT. Well, Senator, in the first place if all banks come in and contribute this 10 per cent—the national banks alone; I am not speaking of the State banks—we will have a paid-in capital of approximately $100,000,000.

Senator REED. In all the banks?

Mr. SCOTT. That is it. The amount that would be required to be lodged with these banks from our reserves will approximate $400,000,000, in that neighborhood. In addition to that sum there will be approximately $200,000,000 that the Government will deposit.

Senator REED. Let us leave the Government out for the present.

Mr. SCOTT. Let us put it all in, now, while we are about it, because the bill comprehends this situation. There are the twelve or less—it would be better were it one, for that matter.

Senator O'GORMAN. Why would it be better?

Mr. SCOTT. Because it would be all one system and one unit, which is always better than a system divided up into several units. I think the single reserve association or Federal bank, whatever you choose to call it, with branches, would perhaps serve a better purpose than to have it split up.

Senator O'GORMAN. To have only one organization?

Mr. SCOTT. To have only one organization, with branches. So, as I say, we will have $700,000,000 in these 12 units, making up one plan. Now, if we carry a 33⅓ per cent reserve, will not that enable

these 12 reserve banks to issue their notes or extend credit facilities to the extent of double this amount, or $1,400,000,000?

Senator REED. Yes. What I was trying to find out a moment ago was, without the issues of notes that the bank might not have any money. The demand might be so great that this fund might soon be exhausted. Now, you want an absolute right to compel the issuance of money.

Mr. SCOTT. What could be accomplished by mobilizing this money unless it is intended to carry with it the function of note issue, and if we need any money to get back the identical money and the same amount of money and no more money than we have put in? Wherein will we have benefited the situation?

Senator REED. You would not benefit the situation except through the issuance of new money. I grant you that.

Mr. SCOTT. That is the only way.

The CHAIRMAN. I do not think it is a correct conception, for the reason these reserves which you put in, if left in your own vault, are not usable for loans, and if you put them in the Federal reserve bank you would have a right to borrow back two-thirds. The bank keeping back 33⅓ per cent reserve, you could borrow back two-thirds of that which was put in and actually use that much of your reserves, which you could not now use.

Mr. SCOTT. Yes; I grant you could do that to that small extent.

The CHAIRMAN. That is not a small extent, because you use all the capital that is put in there of $100,000,000. And against the deposits you have $600,000,000, say, of reserve of Government money, of which you could borrow $400,000,000, and that would go back in your own vaults in cash.

Mr. SCOTT. Yes.

The CHAIRMAN. And become the basis of credits, which could be extended two or three times, perhaps.

Mr. SCOTT. It is not more money we need.

The CHAIRMAN. It enlarges your credit.

Mr. SCOTT. Yes; it enlarges our credit.

Senator REED. Well, that is true, and that is what I was trying to get Mr. Scott to say, but that also involves this idea, does it not (we are going to be fair and practicable): When you take 10 per cent of your capital and put it over in the reserve bank and 6 per cent of your deposits and put that over in that bank and then borrow that money back, you no longer have any reserve in cash if you loan it out—use it. And you have also the right to borrow back your own capital, leaving a reserve of 33⅓ per cent back of these notes.

Senator SHAFROTH. Do you understand that if you draw money they have all got in the bank that back of it you have got to leave a 33⅓ per cent reserve?

Senator REED. No.

Senator SHAFROTH. Only when you issue new money?

Senator REED. Only when they issue new money. You have borrowed the peoples' money back, and if they borrow it back, they no longer have it in cash. They no longer have it as a reserve: they have used that reserve just as effectively as though you went into your vaults to-day and took out 6 per cent of your reserves and loaned them, have you not?

Mr. SCOTT. You have; yes.

Senator REED. Now, you would like to have the right to say to the Government of the United States, for that is what it amounts to, Here are certain good securities and, up to a certain limit, you must issue money, if necessary.

Mr. SCOTT. Somewhere; yes. Fix your limit somewhere.

Senator REED. Where would you put that limit?

Mr. SCOTT. Well, if these reserves placed in your banks are only subject to one-third withdrawal or two-thirds withdrawal, and that is all, the limit would have to be placed very low, because the possibility of the reasonable bankers getting back those reserves would be very restricted. For instance, take this $700,000,000. Do you mean to say under this bill only two-thirds of that can be handed back to the banks or loaned to the banks?

Senator REED. No; my understanding is the whole of that can be loaned.

The CHAIRMAN. No; it can not.

Senator REED. We are not speaking about issued money now.

The CHAIRMAN. You are speaking of the deposits. The deposits of the Federal reserve banks have to have 33⅓ per cent in gold or lawful money behind them.

Senator REED. Yes; you do hold back one-third of the deposits.

Mr. SCOTT. And, Senator, if we start with a mobilization fund of $100,000,000, which is to serve as a reserve against the note issue, or credit issue, will that not take care of an amount just double?

The CHAIRMAN. It would do two things: First, it will allow the capital to be loaned back in full, without any reserve.

Mr. SCOTT. Yes.

The CHAIRMAN. You can loan the capital. If it is $100,000,000 you can loan $100,000,000 of it.

Mr. SCOTT. Yes; that is right.

The CHAIRMAN. The next feature is you can loan two-thirds of those deposits, both member and Federal bank deposits. That will be $600,000,000, making a total loaning capacity of $500,000,000 on that basis. Now, in addition to that, you then have one-third or 33⅓ per cent of per cent of gold against any note issues you have, and if you have in the vaults $200,000,000 of gold as a reserve you can issue against that Federal reserve notes up to twice the amount.

Mr. SCOTT. If that is the limit. You start out with $700,000,000, and after you have issued, say, all the notes that will stand for, $500,000,000, you still have your $700,000,000.

Senator REED. No; you confuse that. The $700,000,000 is money in the bank.

Mr. SCOTT. I understand.

Senator REED. And that money can all be loaned out subject to this one limitation. Let me state it in order: All the money of the Federal Government can be loaned out, as I understand it; all the banks' capital can be loaned out; two-thirds of the bank reserves can be loaned out. That is correct, is it not, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. SCOTT. I do not think the Government's deposits can be loaned out in full.

The CHAIRMAN. Two-thirds of it.

Mr. SCOTT. A reserve against that should be kept, just the same as the deposits of the banks.

Senator Reed. Now, that 33⅓ per cent is just as rigid as any reserve in the bank to-day, is it not? It can not be gone into; it has to be laid aside.

Mr. Scott. You are requiring, however, more than a 33⅓ per cent reserve if you can only issue $500,000,000 of notes.

Senator Reed. We are not talking about issue of notes. I am coming to that. This money can be loaned. Now, in addition to that, we come to the question of issuing money, Mr. Scott.

Mr. Scott. Giving credits, Senator.

Senator Reed. Then you bring in your promissory notes.

Mr. Scott. The giving of credit is just the same as the giving of currency or the issuing of currency, and whether I take notes or I am given credit for it, it is practically the same thing.

Senator Reed. I think you and I are confusing the thing and confusing the record. When you bring in your promissory notes and want a rediscount, Mr. Scott, and get money issued for them, which they have all said is the main feature of this bill——

Mr. Scott (interposing). It is the main feature of the bill.

Senator Reed (continuing). You can get 66 per cent of money issued on them and must lay aside 33⅓ per cent of gold reserves, making the 100 per cent. Now you want the right to demand of the Government that it shall do that when you bring in these proper securities. Where would you put the limit on that demand?

Mr. Scott. Well, about the capital stock of the bank.

Senator Reed. About the capital stock of the bank. Now, if all of the banks of the country availed themselves of that privilege, that would make an absolute right to demand——

The Chairman (interposing). $1.056,000.000.

Senator Reed. $1,056,000,000. Would not that be a tremendous inflation?

Mr. Scott. Well, it will scarcely ever be required.

Senator Reed. That is the possibility of it?

Mr. Scott. Yes; that is the possibility of it.

Senator Reed. That is an absolute right?

Mr. Scott. Yes; if every bank in the United States availed itself of that privilege.

Senator Reed. Do you think the banks of this country ought to have the right to demand that the Government increase the circulating medium of the country by $1,056,000,000 without any right on the part of the Government to check or limit that inflation?

Mr. Scott. Well, I think it should be within the discretion of the board to refuse any excess at any time to any banks that were habitually using it.

The Chairman. Any excess over $1.000,000,000?

Mr. Scott. Yes; and the rate of discount would check the issuance—you certainly would not borrow it unless there was some unusual demand for it.

Senator Reed. It is proposed in this bill, as far as the bill goes—of course if you put a discretion in the board to fix any rate of interest it wanted to it could speedily stop you getting money.

Mr. Scott. Let us say, then, one-half of the capital. I just mentioned the amount of the capital.

Senator Reed. Don't you think it would be better than either of those to give the bankers the right, upon the presentation of a cer-

tain class of securities, to get money but always to have, in the board, the right of refusal. That is to say, that the board, unless it is inimical to the banking system or the currency of the country, the stability of the currency, shall grant this money; but if it, in its opinion, thinks it dangerous, that it shall not.

Mr. Scott. Suppose in a given district there should be banks. As I understand, under this plan there is no limit to the discounts that the board will extend any member of the reserve bank.

Senator Reed. No; there is no limit, as I understand it, except the discretion of the board.

Mr. Scott. As long as their reserve will permit them to extend additional accommodations they could and will do so.

Senator Reed. That is pretty dangerous, too, isn't it?

Mr. Scott. I am leading up to that. I think there should be a limit somewhere to every applying bank.

Senator Reed. And should not there be a limit upon the board itself, that it can not go beyond a certain amount?

Mr. Scott. And if it does, there should be a higher tax, which would automatically retire the excess. If you will just give me a minute I will try and bring out that idea to you. Suppose certain bankers in a district would use considerable money all the year around, habitual borrowers, and some banks better managed, perhaps, would only need it for a short time, perhaps, during the crop-moving period. Suppose it applied to the Federal reserve board in a regional district in a time of the year when the reserve was under its requirement and asked for some discount facilities, and they were then told that they could not get it. You see the point I am trying to bring out there. Now, that is the thing that could be done and ought to be done with those bankers who habitually get the excess.

Senator Reed. Would not you reach that feature by providing a system by which the bank, when it got its first accommodation, would pay a certain rate of interest and if it kept that money longer than a certain period it would pay more, and thus make it so that some bankers could not constantly keep what is in fact an overdraft?

Mr. Scott. Yes.

Senator Reed. We get down to that question of interest pretty nearly every time when we run this down, don't we?

Mr. Scott. Yes.

Senator Reed. Don't you think it is necessary, now, that this bill should have incorporated into it a provision by which the interest rate must, under the law, increase so as to compel the retirement of these notes which may be issued and of any moneys borrowed from the bank?

Mr. Scott. There should be some slight excess of the rate from month to month. I do not think I would make it so high that it would force it out in less than three or four months, at any rate.

Senator Reed. That is, of course, reasonable. Your paper has been very interesting, but in view of the fact that we have to have an executive session of the committee, I will not bother to ask you any more questions

(Thereupon, at 5.30 o'clock p. m., the committee went into executive session, at the conclusion of which an adjournment was taken until to-morrow, Saturday, October 4, 1913, at 10 o'clock a. m.)

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BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 22

[Printed for the use of the Committee on Banking and Currency]

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1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

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JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
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SATURDAY, OCTOBER 4, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, O'Gorman, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, Crawford, McLean, and Weeks.

The CHAIRMAN. Senator Crawford, if you have some witnesses to present, the committee will be glad to hear them.

Senator CRAWFORD. Mr. Chairman, I will present Mr. Bassett, of Aberdeen, S. Dak., who comes here representing the country banks and interests, generally speaking, of business and otherwise, of the State of South Dakota in relation to the proposed bill.

STATEMENT OF J. C. BASSETT, PRESIDENT OF THE ABERDEEN NATIONAL BANK, ABERDEEN, S. DAK.

The CHAIRMAN. Mr. Bassett, will you kindly give the stenographer your banking affiliations?

Mr. BASSETT. I am president of the Aberdeen National Bank, of Aberdeen, S. Dak. I have been engaged in the banging business for 25 years, during all that time in the State of South Dakota. I come before you, not as an economist criticizing the bill, except as it appears to us, from a practical standpoint, not to be workable and practicable for our section of the country.

In the State of South Dakota we have 104 national banks and 504 State banks. Of course, the national banks are the ones that are particularly affected by this matter. The condition of the State banks, except as they may be considering the proposition whether they will come into the system or not, is rather quiet.

I do not care to discuss the various criticisms we may have to pass on the bill particularly, except with regard to two or three points that closely affect our district. Strictly speaking, we are in an agricultural country, and, of necessity, our paper runs for a longer time than it does in other portions of the country, and one of the principal objections that the country bankers have to the bill is with respect to section 14 relative to the rediscount question—as to the length of time of the paper.

The CHAIRMAN. It does not say the length of time of the paper.

Mr. BASSETT. The limit of the length of time; that it shall not be——

The CHAIRMAN. The maturity?

Mr. BASSETT. The maturity; that it shall not be more than 90 days.

The CHAIRMAN. You do not mean that that would mean the length of time the paper would run?

Mr. BASSETT. No; I understand we may have 6 months' paper, and if it had only 90 days to run——

The CHAIRMAN (interposing). I simply wanted to make that clear.

Mr. BASSETT. Yes, sir. Of course, the closest time for money in our country is during the crop raising period, and also during the period when we are——

The CHAIRMAN (interposing). During what months?

Mr. BASSETT. The farmer and the cattleman begin to borrow in March and the first part of April, and the shortest time that class of paper runs is until the latter part of October or the first part of November. The cattle man wants to carry his cattle just as long as he can, because during the last two or three months they put on more flesh than at any other time of the year—during the feeding time.

The CHAIRMAN. When do they begin borrowing in a strong way? Along about July?

Mr. BASSETT. Well, they are more apt to in June; the first part of June and the latter part of May. They put their money into their cattle proposition just as early in the season as they can, so as to get them out on the range. Now, it is, to a certain extent, true of the farmer and the grain-raising man that he needs his money early in the spring, and of course that runs until fall.

The CHAIRMAN. That grain clears up about July, does it not?

Mr. BASSETT. It matures about the 10th of August in our country—the 1st to the 10th of August, and the heavy crop-moving season is in the middle of October to the 1st of November, from maturity to threshing time.

The CHAIRMAN. When you begin to get in your payments on grain?

Mr. BASSETT. When we begin to get in our payments on grain. Our heaviest payments really are the 1st of November.

Now, in the later reports of the comptroller he has asked us to separate out our different classes of paper as to maturity——

The CHAIRMAN. I will state that I caused that to be done in order to get before the committee the volume of these maturities, and I find that there are $3,600,000,000 of maturities inside of 90 days. I merely mention that——

Senator NELSON. But if you will notice the figures you will see that the biggest share is in the central reserve and the reserve cities. The proportion is different when you get to country banks. And then it bears in the different localities——

The CHAIRMAN (interposing). I have those figures and they will be before the committee. I have had them printed.

Mr. BASSETT. I presumed that the change in the comptroller's department had something to do with this bill. Of course, you must take into consideration that that covers a lot of 30-day paper and 60-day paper——

The CHAIRMAN (interposing). We understand that.

Mr. BASSETT. A great share of that being in the agricultural and western country, and a great deal in the larger city banks.

The CHAIRMAN. We have that divided.

Mr. BASSETT. So that, as a practical illustration, we find in our own bank—without giving you the detailed figures—a discount of practically $600,000. I have had those notes sorted out as to what was actually 90-day paper to run. I found in that $93,800.

Senator NELSON. Out of $600,000?

Mr. BASSETT. Out of $600,000 worth of paper. That gives you a concrete case of a bank located in an agricultural country, except that I believe that in a small town where there are $25,000 banks the percentage is even more.

The CHAIRMAN. How much 120-day paper do you have?

Mr. BASSETT. Of 120-day paper we had $210,000.

The CHAIRMAN. You could use half 120-day paper under this bill for that 33⅓ per cent?

Mr. BASSETT. Provided the regional bank has the required amount of reserve. That could be done in a pinch. I do not know what that condition might be.

The CHAIRMAN. Moreover, even if they did not have it, they could issue notes against your business of a qualified class.

Mr. BASSETT. Yet I presume that would be rather a doubtful proposition if they had considered it, if they were not up to the reserve.

Senator POMERENE. Did you give the capital, surplus, and deposits of your bank?

Mr. BASSETT. I did not.

Senator POMERENE. I wish you would make a statement.

Mr. BASSETT. The capital of our bank is $100,000, and a surplus of $50,000, and undivided profits of $45,000.

Senator POMERENE. And your deposits?

Mr. BASSETT. The deposits were $1,384,000 at the time I made this analysis that I speak of.

In that connection, I would say that we are in a town of practically 15,000 people, but, of course, in our paper we have considerable mercantile paper. That paper, under our rules, we never take longer than 90 days, while the agricultural paper and the cattle paper we have to take for the length of time that the party wants it.

Senator NELSON. That is generally five to six months?

Mr. BASSETT. That is five to six months. I mean by the time he wants it it is within that length of time.

I notice the argument has been raised that it would be a very easy matter to take the paper 30 days and then renew it. You take a cattleman that has $100,000 or $200,000—practically his whole capital—invested in stock. He does not care to take the hazard of being able to renew that at the end of 90 days. He may have perfect confidence that his banker will renew it according to his word, but we have had conditions arise when the banker was absolutely helpless and that man does not care to put himself in that condition, to hazard his own business. It would be hard work to induce a stockman to give 90 to 120 day paper, because it would come right in the middle of the proposition when the cattle have not made the gain they should, and that is the part that shows the profit. So it looks to us as if it would be very desirable to be able to take longer paper.

Senator POMERENE. Right on that point, I assume that your customers have been dealing with you for a good while, and while they know that heretofore they have had six and nine months' peper, there has been a change in the banking system of the country which would suggest the propriety of making that 90-day paper. That being the case, don't you think you would not have as much difficulty as at first blush you seem to feel you would have to persuade them to take that paper and then renew it?

Mr. BASSETT. I realize the fact that a banker that has been in business—his customers who have been in contact with him for a good many years have a good deal of confidence in him and they would rely upon him somewhat. But they would hark back to 1907,

when promises were practically abandoned, and they would bring that up; they would talk about that.

Senator POMERENE. One of the purposes is to prevent the difficulties that occurred in 1907.

Mr. BASSETT. I understand, but they would hark back to that even under those circumstances.

Senator POMERENE. I know, but it seems to me that a banker of your skill could explain that satisfactorily.

Mr. BASSETT. If I had to have 90-day paper I should endeavor to explain it, to be sure.

Senator BRISTOW. But the State bank that did not have to come under these restrictions or change its method of business would not have to explain.

Mr. BASSETT. It would not have to explain at all, Senator. All it would have to do would be to take his paper.

Senator POMERENE. And the bank would also have less trouble if it did not believe——

Senator BRISTOW. The Senator has a beautiful theory on that, but I have letters every day from national bankers saying they are going in under the State banking provision in our State, and from State bankers saying they are not interested in this because they do not expect to go in.

Senator POMERENE. I want to apologize for interrupting, Mr. Bassett. We adopted a rule here the other day, and I perhaps ought not to have said anything.

Mr. BASSETT. As far as I am concerned, I am glad to have you do so.

Senator POMERENE. You were developing that question, and I had it in mind.

Mr. BASSETT. I have no set speech, Senator; I am simply talking from a practical point of view.

Senator CRAWFORD. You say there are 104 national banks there?

Mr. BASSETT. There are 104 national banks in South Dakota.

Senator CRAWFORD. Do you have any figures to show what the total capitalization of the 104 banks is, and the amount that the unimpaired capital and surplus would be for all of them?

Mr. BASSETT. Yes; I have the comptroller's statement of the 9th, which gives those figures. As I remember, the capitalization of those banks is $27,164,000, with deposits of $32,302,000.

Senator CRAWFORD. What would be the aggregate amount, if you have ascertained it, that they would have to pay toward the capital stock of the reserve bank for that region—the 10 per cent?

Mr. BASSETT. I could figure it out, of course, but I have not those total figures. It will vary from 70 to 90 or 95 per cent of their capital. Take it in our own case, with a capital of $100,000. Figuring on the 20 per cent basis—and I, as a conservative banker, can not figure anything else that we would have to pay in—and the amount we would have in the reserve in the regional bank without interest—it would figure about 90 per cent.

Senator CRAWFORD. Ninety per cent of what?

Mr. BASSETT. Of our capital that we would actually lose any income from, except what income might come from the earnings of the regional bank.

Senator CRAWFORD. It is only 10 per cent of your capital and surplus that you subscribe; you subscribe 20 and pay 10.

Mr. BASSETT. Yes, sir; I figure that there is another 10 to pay.

Senator CRAWFORD. Yes; but what I am trying to get at is how much money will be taken out of the State in bulk—loanable assets—and tied up in stock subscriptions to the regional reserve bank.

Mr. BASSETT. The capital stock of $27,000,000 in round figures. And, as I said, the amount that is put into the reserve from the deposits, you understand, goes into the regional reserve bank, and that, as far as we are concerned, is practically dead money as far as any income is concerned. It would vary from 70 to 90 per cent. If it were 80 per cent, it would be $21,000,000.

Senator CRAWFORD. I confess I do not understand it. You subscribe only 20 per cent of your capital stock. How much money will that be?

Mr. BASSETT. Twenty per cent of the capital stock would be $20,000.

Senator CRAWFORD. Yes; but for all the banks in the State.

Mr. BASSETT. It would be 20 per cent of $27,000,000.

Senator CRAWFORD. Just to get it in the record, what does that amount to?

Mr. BASSETT. $5,400,000.

Senator CRAWFORD. So that one-half of that paid in cash for the stock would be——

Mr. BASSETT (interposing). $2,700,000.

Senator CRAWFORD. That would be no longer available as loans to your customers in South Dakota?

Mr. BASSETT. That is correct.

Senator CRAWFORD. They would be deprived of the use of that amount in the State?

Mr. BASSETT. Yes, sir.

Senator CRAWFORD. Now, what would the reserve tied up in the regional reserve bank without interest amount to in the aggregate?

Mr. BASSETT. The law contemplates 5 per cent of $32,000,000.

Senator NELSON. No; it is 5 per cent of your deposits.

Mr. BASSETT. The deposits are $32,000,000. It would be 5 per cent of that; it would be $1,600,000.

Senator NELSON. Added to them, that would make it over $2,000,000, would it not?

Mr. BASSETT. Added to the $2,700,000, it would make it $4,300,000.

Senator CRAWFORD. That is what I wanted to get at. The effect of this law as it is presented here would be to take out of the loanable assets of the national banks of South Dakota this sum of——

Mr. BASSETT (interposing). $4,300,000.

Senator CRAWFORD. And it would be located in the regional reserve bank, unless the South Dakota banks which paid it in could get it back again by reason of discounting their paper in the regional reserve bank, would it not?

Mr. BASSETT. They have the opportunity; but what I maintain is that that class of paper as a whole is only a comparatively small amount of what they would be able to get back of what they put out. You have only figured the 10 per cent. Any reliable and responsible banker if he has an obligation out for 10 per cent—we have got a 20 per cent obligation—or $2,700,000 more.

Senator CRAWFORD. Now, your town is the second largest town in the State, it is not?

Mr. BASSETT. Yes.

Senator CRAWFORD. Well, most of these 104 national banks that you speak of are located in country towns much smaller than the one you live in?

Mr. BASSETT. Towns varying from 2,000 to 500 people, most of them. I think I have already said that conditions would be even stronger in favor of having a less amount of that class of paper in the smaller country banks than in ours.

Senator CRAWFORD. There would be less commercial paper in the smaller banks proportionately than in a bank like that in Aberdeen. or a bank situated in Sioux Falls, would there not?

Mr. BASSETT. Aberdeen and Sioux Falls would correspond quite closely.

Senator CRAWFORD. Take a small town of from 600 to 1,500 people. Would they have much paper maturing in 60 or 90 days that they could rediscount under this law at the regional reserve bank?

Mr. BASSETT. Very little—only possibly during the month of September—the latter part of August, and September and October; say three months out of the year. A great many of them even run a year.

Senator CRAWFORD. I did not want to interrupt the thread of your remarks, but I wanted to get those facts in the record.

Senator POMERENE. Just along the line of what you have been asking, may I ask a question? What reserves do you require under your State law?

Mr. BASSETT. Under the State law a trifle higher than under the national—20 per cent.

Senator POMERENE. Now, of course, under the national-bank law your reserves are 15 per cent now, and under this bill they would be reduced to 12 per cent. Where do you carry your reserves, generally speaking?

Mr. BASSETT. In reserve centers like Minneapolis, Chicago, St. Paul, and New York.

Senator POMERENE. And what, in fact, are your reserves on the average—what per cent of your deposits?

Mr. BASSETT. From our own bank, our reserves will average from 30 to 35 per cent, including cash on hand and actual reserve.

Senator POMERENE. And you carry that largely for convenience, I take it?

Mr. BASSETT. For convenience and safety and facility of doing business. We could not run on a 15 per cent basis, although the law permits it.

Senator POMERENE. Then, how would you be prejudiced by the fact that the law now would require 12 per cent of reserves?

Mr. BASSETT. Because I think there is not any benefit from it, from the fact that 12 per cent or even 15 per cent is too low to do business carefully and conservatively and with reasonable speed.

Senator POMERENE. Would it not be a good thing for you to have some place to go where you could rediscount your paper, assuming that was the custom throughout the country generally?

Mr. BASSETT. I consider that I have that now.

Senator POMERENE. Yes; but in your section of the country is it not regarded as rather bad banking to do it?

Mr. BASSETT. It is not regarded with favor.

Senator POMERENE. I think that is true generally throughout the country.

Mr. BASSETT. Yes, sir; a bank that borrows extensively and shows it in their statements is not considered in good shape.

Senator POMERENE. But if it were adopted as a national policy, don't you think it would be regarded rather as good banking instead of bad banking to rediscount—when necessary, of course?

Mr. BASSETT. There may be in the course of a series of years a complete change of sentiment, but from my own standpoint I do not regard it as particularly good banking to borrow money for any length of time to reloan—from a banker's point of view. But in a series of years a change of sentiment might come about.

Senator POMERENE. That seems to be the condition generally in the European countries.

Senator NELSON. What it amounts to, Senator Pomerene, is borrowing money to loan out.

Senator POMERENE. I take it that would only be done in cases of necessity. Every locality gets into the condition where they need additional currency for some reason or other.

Senator CRAWFORD. Mr. Bassett, right there, it seems to me that this system—if the small country national banks of South Dakota are compelled to go into it—will take out of their loanable assets over $4,000,000 for paid subscriptions to stock of the regional bank, and that it will also take out a large additional sum that is required to be kept in the regional reserve bank as a reserve. For that reserve the bank is to receive no interest, as I understand it.

Mr. BASSETT. Yes, sir.

Senator CRAWFORD. Upon the stock so subscribed, amounting to over $4,000,000, the dividends are limited to 5 per cent—or they were originally in the bill. Now, on the other side, what will be the benefit to the communities from which this money is taken in South Dakota, to the banks themselves, and to the people out there who are now borrowing this money from the banks? What will be the benefit which they will receive from this system that will compensate the community and the banks for the loss of the use of this money as it is being used now?

Mr. BASSETT. I fail to see any particular benefit that might arise from it, except in time of extreme panic. I do not see personally, or as a banker in that locality, any particular reason why they should discount, which they would have to do to overcome this loss of $4,000,000, except in time of stress. It might be a safety valve at that time.

Senator BRISTOW. Do you not think a safety valve could be created without having to pay so much for it?

Mr. BASSETT. I certainly do. I am not prepared to draft a bill to that effect, but, from a practical standpoint, I believe it could be done.

Senator CRAWFORD. That is the chief thing in this bill to which you object and the banks of your State object?

Mr. BASSETT. That is one of the chief items, and then the question of exchange charges in another section of the bill.

Senator BRISTOW. Before you go to that, if it will suit you just as well, let me ask you another question. It has been intimated that a six months' note if it matured in three months could be used for rediscounting. Now, how would your customers feel if you sold their notes and when they came to pay them they would have to pay them to some bank in Minneapolis or Chicago?

Mr. BASSETT. Of course, that question would arise with them immediately, particularly if it became a custom to rediscount. They would say: "Why, we dare not risk that; you may not have that note at all when the time comes. It may be in the Government bank in Chicago, and you would not have anything to say about it."

The CHAIRMAN. Do you mean to say that notes would be paid in that event in the Government bank at Chicago?

Mr. BASSETT. If it was rediscounted—for instance, if Chicago were the regional point.

The CHAIRMAN. Yes; but it is made payable in your bank.

Mr. BASSETT. Surely.

The CHAIRMAN. And would be payable in your bank and nowhere else.

Mr. BASSETT. Yes; but we would obey the instructions of the regional bank that was returning it to us.

The CHAIRMAN. Of course, but if you wanted to extend that paper you would give them a rediscount again.

Mr. BASSETT. We would have to assume that responsibility ourselves.

The CHAIRMAN. You would do that in any event?

Mr. BASSETT. If I were going to extend it I would extend it; yes, sir.

The CHAIRMAN. In either case, whether you had sold it or not?

Mr. BASSETT. I would feel that I had to obey the regional bank in any case.

The CHAIRMAN. Of course, and it would simply be a transfer of credits.

Senator BRISTOW. Under the provisions of the bill such paper as that, however, would not be available as a basis for currency, for the alleged merit of this 90-day system is that the money is to be picked out of the pockets of the people in order to relieve the stringency by the payment of these notes. That is one argument that has been made for 90-day paper. And if it has to be renewed at the end of 90 days it is not taken out of the pockets of the people, but it is extended just as it is now.

The CHAIRMAN. Is the Senator asking the witness a question?

Senator BRISTOW. I am simply thinking aloud in regard to some of the remarks I have heard the chairman make in the past. [Laughter.]

Mr. BASSETT. There is the question of exchange, which, of course, naturally meets with a very serious objection from practically all the country banks. I believe that the business men as a whole over the country believe, and the bankers certainly believe, in a legitimate charge for exchange. If these checks and drafts, that might be drawn on the various banks in the country were received by the regional bank at par, as indicated in the bill, and charged to your account in that regional bank, it would be very questionable at any time whether a bank would be able to keep up its reserves. It is an ordinary thing for our reserve bank in Minneapolis to charge us

from $40,000 to $60,000 a day in checks they gather, and a regional bank would certainly gather a larger amount than that even. We would not know whether we had $10,000 in the regional bank or $30,000.

The CHAIRMAN. You would not know that as to the reserve bank, either, until you were notified?

Mr. BASSETT. No, sir.

The CHAIRMAN. And one case is the same as the other, is it not?

Mr. BASSETT. No; only to this extent: That in one case we are obliged to keep it there and in the other case we can tell them not to charge it off to our account, but that they can send it to us for collection.

The CHAIRMAN. Do you not constantly remit to your present reserve agent in order to offset these checks that are charged against you?

Mr. BASSETT. In the daily transaction of business——

The CHAIRMAN (interposing). Would you not do the same thing with the reserve bank?

Mr. BASSETT. To a certain extent.

The CHAIRMAN. What would be the difference?

Mr. BASSETT. Because the reserve bank would charge it to our account——

The CHAIRMAN (interposing). Your present reserve bank does that?

Mr. BASSETT. No, sir; we do not allow them. We are in a position to say so.

The CHAIRMAN. You do not allow them to charge checks against you?

Mr. BASSETT. No, sir; we are in a position to say to them that they shall not.

The CHAIRMAN. What happens is that they send those checks back to you and you remit for those checks? Is that the idea?

Mr. BASSETT. Yes, sir.

The CHAIRMAN. In other words, you are able to keep that outstanding money moving as a volume of checks a little longer?

Mr. BASSETT. Yes, sir.

The CHAIRMAN. And in that way you get the volume of interest for a few days?

Mr. BASSETT. One of the nice little details——

The CHAIRMAN (interposing). One of the nice little details at the expense of the country?

Mr. BASSETT. I do not think it costs anybody anything.

The CHAIRMAN. If it does not cost anybody anything, you do not gain anything.

Mr. BASSETT. It may cost the reserve bank a little——

The CHAIRMAN (interposing). You get the use of it and a positive benefit, and it does not cost anybody anything?

Mr. BASSETT. It does not cost the customer or us anything.

Senator BRISTOW. The reserve agent does that in order to get your account?

Mr. BASSETT. He wants the account that much, at least.

Senator BRISTOW. You could not go to him when you are compelled by law to keep your reserve in a Federal bank? Your hands would be tied so far as utilizing that which you now have is concerned?

Mr. BASSETT. I do not think the Government bank would submit to dictation.

Senator POMERENE. Did you have any difficulty in getting money in 1907 from the reserve agents?

Mr. BASSETT. A little; it was not even serious.

Senator POMERENE. You would have felt a good deal of relief if you had not been hampered in that way, would you not?

Mr. BASSETT. We would have felt relieved if we had not been hampered by a panic at all. I could not say that the situation was with us particularly strenuous.

Senator POMERENE. It was pretty general all over the United States, and you felt it to a certain degree in your own State?

Mr. BASSETT. Oh, yes; we did not sleep quite as long as usual.

Senator POMERENE. And if you had had some place at that time where you could have taken your short-time paper and had it rediscounted and got currency for it, it would have relieved you quite a good deal, would it not?

Mr. BASSETT. I did do that and got relief.

Senator POMERENE. What per cent did you pay at that time when you were rediscounting your paper?

Mr. BASSETT. Six per cent. There was another point I wished to touch upon, and that was relative to farm loans, in section 26.

Senator POMERENE. In that connection, what was the controlling rate of interest up there? When you were getting it at 6 per cent, what did you charge your customers for it?

Mr. BASSETT. From 8 to 10. The majority—our average rate is about 7 to 8 at the last statement. There is a difference between a business rate and a cattle rate.

Senator NELSON. What are your lowest rates?

Mr. BASSETT. Merchants' paper at 6 per cent. Of course, we do not see any money in borrowing money at 6 per cent and loaning it to the merchant at 6 per cent.

Senator CRAWFORD. Mr. Bassett, before you take up this other point I should like to get a statement from you—that is, if you are able to give it—with reference to the proportion of paper held by all the national banks in South Dakota that would be rediscounted at a regional reserve bank under this proposed law. What proportion of the paper held by national banks in South Dakota, as they run—little banks of $25,000 and larger banks like yours—would be within that class that would be rediscounted?

Mr. BASSETT. I would only be able to estimate that from my relation with the bankers of my State, and from my connection with State bankers in country towns, which would issue that class of paper. I would say 15 to 20 per cent only.

Senator CRAWFORD. Not more than that?

Mr. BASSETT. No; because the smaller the town, the more sparsely settled the community, the more apt that paper is to be a long-time paper.

Senator CRAWFORD. Is it not also a custom to renew and extend from one crop period to another crop period, accepting the interest and a small payment and extending the balance, so that the average loan will extend over a considerable period of time?

Mr. BASSETT. That does happen. I would not say that that is the custom. A certain percentage of that paper will figure out that way; but I would not say that was the custom, for a man's paper to go on from year to year.

Senator NELSON. What proportion of your national banks are those small $25,000 capital banks? It must be a majority of them.

Mr. BASSETT. I should say 60 per cent of them.

Senator NELSON. Which come under that category?

Mr. BASSETT. Under that $25,000 capitalization. When the law allowing banks to organize with a capitalization of $25,000 went into effect many national banks were organized on the strength of it. I would say in this connection you remind me of the fact I had in mind to organize two other national banks soon, but it has entirely departed from my mind since this bill has been pending. I do not think I want any more national banks.

Senator CRAWFORD. The customers of those little $25,000 banks, as a rule, are farmers and stockmen and retail merchants, little country storekeepers?

Mr. BASSETT. Yes, sir; in the small towns.

Senator CRAWFORD. Almost exclusively the borrowers are of that class in the small towns where you have banks of $25,000 capital. Is not that true?

Mr. BASSETT. Practically all of them. If there is nothing further relative to these short-time loans, I would like just for a moment to speak relative to section 26, "Loans on farm lands." I have not seen that there is being very much said about that—about the 12-month period originally amended from 9, I think. It does not cover the contingencies of the case that arise in our country. If a farmer makes a loan on his real estate—our land is of good value—he makes it for further improvements on the land, so it is usually made for three to five years. I would be inclined to think that that would be rather a long-time loan for a national bank to make, but, to my idea, if it was made for two or three years—not less than two years—it would be practicable for the national banks in our country to take considerable of that paper, to the extent it is limited in the proposed bill. It is limited as to what they can take. As I understand it, in the South the cotton grower is accustomed from the training of his banker to give a mortgage for a short time. But that can not be done in our country, because the money the farmer borrows is not to raise his crop. He is usually good enough to get that on his note, or a note with a signer, or on chattel security. The question has always been raised that the real estate mortgage was not liquid. I found during the panic of 1907 if there was anything in our bank that we could raise money on it was a real estate mortgage.

The CHAIRMAN. Where did you raise it principally?

Mr. BASSETT. From the farmer himself. If a farmer came in the bank—I do not know of any case of this kind, but I know with some it did happen—and he was scared he was not going to get his money and was given a real estate mortgage of some neighbor he knew, he was perfectly satisfied.

The CHAIRMAN. That occurred in quite a few places in the country?

Mr. BASSETT. Yes. And really during the panic of 1907 that was the most mobile asset we had; but I believe in this case there is no

question that it should run for two or three years, to be made by national banks.

Senator NELSON. I know of two instances in the southern part of my State in the panic of 1893 and 1894 where a run was checked by the giving of mortgages.

The CHAIRMAN. Yes; Festus J. Wade went about through the country doing that very thing, and he made over a million.

Mr. BASSETT. The bank said:

> Why, when you let us have the money you did not expect for a moment we were going to let it lie idle? We loaned it out on your neighbor's mortgage, and here it is.

The CHAIRMAN. That was done in quite a few instances, and Festus J. Wade, on his own activities, went through the country and sold mortgages in $500 amounts. The mortgages were issued in the first place for $500 amounts, so as to make them a marketable security.

Senator NELSON. I would a great deal rather take a good farm mortgage than any railroad stock or bond you could give me.

Senator BRISTOW. If farm-mortgage security was given the same advantages that it is proposed to give this commercial paper, would it not add to the desirability of farm mortgages as security? That is, if the Government would take a farm mortgage as a basis for currency, would it not make a farm mortgage a more desirable loan than it is now without such a privilege?

Mr. BASSETT. It would not, on account of the lack of elasticity or ability to raise money quickly.

Senator BRISTOW. You can raise it more quickly upon the other security?

Mr. BASSETT. Yes. May I ask what the suggestions to the committee have been on this point as to the length of time of real-estate mortgages?

The CHAIRMAN. The suggestions made by the witnesses have been to extend it from nine months to five years.

Mr. BASSETT. That is, the mortgages to run for five years? I am inclined to think that would be a little long as this is too short.

There was one other point, relative to the savings department. I know a great many banks throughout our country are carrying a savings department purely, I think, at the pleasure of the department. I do not know that it is authorized in any way, but there are no savings banks, practically, in our country. There are only two in the State. The condition exists differently there than it is in New Orleans or east of the Ohio in that respect, and it occurs to me there is no reason why they ought to be obliged to wait a year before they can organize a savings department under this act. It would make a loss of time after the going into effect of the new act which, it occurs to me, would seriously affect business.

Senator HOLLIS. Do you not think those banks would rather continue under the present system, by courtesy of the Comptroller, than to adopt a hard and fast law like this?

The CHAIRMAN. A good many of the bankers have objected to the savings-bank provision, because of new rules and regulations that would perhaps change the class of investments, and that is the reason the Senator asked you that question.

Mr. BASSETT. Well, as they are doing business now, they pay no particular attention to it, but there would be safeguards thrown around this savings department, relative to the withdrawal of deposits, that, to my mind, would be a safety. We all know in times of panic the savings-bank depositor is the fellow that is scared first, but you take a savings bank doing business and they can put up a sign in their teller's window, "We have taken 60 days' notice," and leave the doors open and go on and do business. If a national bank at the present time is running a savings department, and they put a sign in their teller's window, "We have taken 60 days' notice," they would either be flooded with depositors after their money and would have to close up the commercial department, too, or shut their doors immediately.

Senator HOLLIS. Do you feel at present the savings departments are rather loosely conducted and ought to have safeguards thrown around them?

Mr. BASSETT. They are not as safely conducted as the average savings bank throughout the country; no.

Senator HOLLIS. Ought they to be? What is your opinion about that?

Mr. BASSETT. My opinion is that the deposits of the savings bank can use a little different class of investments than the deposits of the commercial bank.

Senator HOLLIS. Just give me your opinion whether you think they are too loosely conducted now and ought to have more safeguards thrown around them.

Mr. BASSETT. I do not know as I would care to say they are too loosely conducted. I would prefer to say I think it would be better if they were limited as to their class of investments for the savings department.

The CHAIRMAN. You have a State bank, I believe, have you not?

Mr. BASSETT. The bank of which I am president is the Aberdeen National. I have six State banks operating under State laws, but I only referred in this matter to the national-bank proposition. I have taken some pains since this law has been under consideration to ascertain the condition of the country banks, and the large majority of them feel that it would be onerous under the present restrictions; and unless it was quite materially changed, in respect to some of the suggestions that have been offered from time to time, they would be very apt to go under a State charter. And I do know that the State department of banking expects a large increase in their department if this law should go into effect as it is.

Senator CRAWFORD. You think it would be much more just to the class of banks, such as those in South Dakota, if under the bill it was made optional with these small banks to subscribe or not subscribe to the stock of these regional reserve banks, do you not? You think that would be much more just than to leave it as at present?

Mr. BASSETT. I think it might be much more just, but I do not think you would get one of them in. I do not think they want the safeguards.

Senator CRAWFORD. They would not exercise the option in favor of coming in?

Mr. BASSETT. I do not think they would under the present condition. I think if it is modified they would.

Senator CRAWFORD. I think perhaps some of the larger banks they have in Sioux Falls, Lead, or any large town might think they could use the rediscounting feature of this Federal reserve bank, while the smaller banks in the smaller towns would not be able to see any benefit.

Mr. BASSETT. That might seem so, but in the case of Sioux Falls, the largest town in the State, there are the two largest banks in the State. They are State banks. I do not think they have any idea of conducting a national bank under any conditions. It does not necessarily follow that the national banks will always have the largest business in the towns.

Senator BRISTOW. Mr. Bassett, if this system was established, there would be some of the large banks in the commercial centers that would come into it, probably a number of them. They could get these rediscounts on their paper. They would be desirous of your deposits or the deposits of the State banks, and they would want to be your correspondents the same as they do now, and they would guarantee to take care of you in time of trouble through this reserve bank, which they could go to doubtless in order to secure your business, would they not?

Mr. BASSETT. The reserve banks you are speaking of?

Senator BRISTOW. Yes.

Mr. BASSETT. Not the regional banks, but the reserve banks?

Senator BRISTOW. The reserve banks that were members of the regional banks.

Mr. BASSETT. Oh, I think they would be just as anxious for our business as they are now, from their standpoint.

Senator BRISTOW. And so far as getting help in time of trouble is concerned, you would not have to be a member also of the regional reserve bank in the practical operation of business?

Mr. BASSETT. Under this bill?

Senator BRISTOW. Under the bill.

Mr. BASSETT. As a national bank I would have to be.

Senator BRISTOW. But you would not have to be a national bank.

Mr. BASSETT. No.

Senator BRISTOW. You could give up your charter and take a State charter.

Mr. BASSETT. Yes.

Senator BRISTOW. And let the burden rest on the other fellows.

Mr. BASSETT. That is what I say will be the result of the bill if it stays as it is, but I think you gentlemen will make amendments to it.

Senator BRISTOW. Do you think there ought to be any change made in the national-bank law?

Mr. BASSETT. I do not pose—I pose more as a practical banker than I do as a critic of the present national system, only I do know this, that the currency problem under the present law lacks elasticity. We have that illustrated very strongly by the banking experts, also in the accumulation and pyramiding of reserves.

Senator BRISTOW. The reason of my asking you is because you are a practical banker. I get a good deal more information that is useful to me from practical bankers than theorists, and that is the reason I like to have actual bankers come in, because they give us practical notions as to how it would affect business and not theoretical notions

what ought or ought not be or might happen to be. Your trouble, then, if there is trouble with the national-bank law, is not in the national banking law so much as in the elasticity of your currency?

Mr. Bassett. Yes; and particularly at the crop-moving time, when we do require a great deal of currency.

Senator Bristow. Yes. So if provision was made whereby you could secure additional currency upon your assets, temporarily, from the subtreasury or from a bank—a Government bank of some kind—there is not any other relief you can think of that would be desirable?

Mr. Bassett. In general. I would consider that that was the desired point, and that is the weak point in the present national-bank law.

Senator Bristow. What reserve do you carry in your vaults; what per cent of your deposits?

Mr. Bassett. The law requires 6 per cent. We carry probably 8 to 10 per cent.

Senator Bristow. Eight to ten per cent. What per cent of your deposits do you carry with your correspondents?

Mr. Bassett. Well, 25 per cent, in round figures. Our total reserve runs from 30 to 35 per cent in our case.

Senator Bristow. You find that necessary to handle your business properly?

Mr. Bassett. We find that necessary to handle our business properly and expeditiously, and at the same time to make it perfectly safe.

Senator Bristow. So that this reduction from 15 to 12 is a matter of no consequence?

Mr. Bassett. It does not affect us. I do not think, except in theory, it affects hardly any bank.

Senator Bristow. If you became a member of this new banking system and deposited your reserves with the regional bank, as you would have to do, what deposits would you find it necessary to keep in the present commercial centers where you now have your reserves, anyway?

Mr. Bassett. I do not see that it would change the condition as to how much money we would have to have in the reserve cities, like Minneapolis, Chicago, and New York, than what it is now, except part of it, instead of being in the present reserve banks, would be in the regional reserve bank. I do not know of any reason why it would change the general trend of business or require less money in Chicago than it does now.

Senator Bristow. You carry a reserve in New York?

Mr. Bassett. Yes, sir.

Senator Bristow. Of what per cent?

Mr. Bassett (continuing). Because we have to.

Senator Bristow. You keep that there as a matter of business?

Mr. Bassett. On account of the transfer of funds, particularly. I do not think the average western bank carries as much money in New York nowadays as it did 10 years ago.

Senator Nelson. They have not since 1907.

Mr. BASSETT. I think, Senator, they all learned something in 1907. And then there is the further reason that Chicago answers the purpose of our country in an exchange way that it did not answer some years ago. In other words, it is becoming more of a reserve center.

Senator WEEKS. What did you learn in 1907?

Mr. BASSETT. We learned with the first notice that currency was a shy article and we should not receive any from New York. We felt it coming down the line.

Senator WEEKS. Did you receive any?

Mr. BASSETT. Did we receive any notice?

Senator WEEKS. Yes.

Mr. BASSETT. I received a telegram from Chicago and a phone message from Minneapolis. The phone message from Minneapolis stated that the New York banks had shut off and they were not receiving currency from any source. Consequently, they shut off on us.

Senator WEEKS. Did you ask New York for any circulation at that time?

Mr. BASSETT. No, sir.

Senator WEEKS. Had you ever done it?

Mr. BASSETT. I have borrowed money in New York.

Senator WEEKS. I mean, have you asked for currency from New York?

Mr. BASSETT. No, sir.

Senator WEEKS. You have never done so?

Mr. BASSETT. It is too expensive. We are willing our nearest reserve bank should pay the express on it rather than ourselves.

Senator WEEKS. Yes. What I was trying to get at was, if you did, in 1907, ask New York for any currency?

Mr. BASSETT. No, sir; because I thought I knew better.

Senator WEEKS. Why did you know better?

Mr. BASSETT. I read the papers every day, and I took my banker's word in Chicago that he could not get any currency.

Senator WEEKS. Do you not know that the bankers, wherever they did ask for it in New York, did get currency from that center?

Mr. BASSETT. No, sir; I did not know that fact.

Senator WEEKS. Did you ever undertake to find out whether they did or not?

Mr. BASSETT. I took their word for what they told me.

Senator WEEKS. Don't you know perfectly well, Mr. Bassett, that every banker was trying to husband his own resources at that time, naturally enough?

Mr. BASSETT. Yes, sir.

Senator WEEKS. You and every other banker?

Mr. BASSETT. Yes, sir.

Senator WEEKS. And don't you know every banker was discouraging any man who wanted to obtain currency, fearing that he would be short at the same time when he actually needed it?

Mr. BASSETT. Yes, sir.

Senator WEEKS. And is it not probable that your Minneapolis and Chicago bankers passed along that word to you from New York because they did not want you to draw on them?

Mr. BASSETT. I think every banker was endeavoring to conserve his own resources.

Senator WEEKS. You know at the beginning of the panic, the New York bankers had the reserve, didn't you?

Mr. BASSETT. I understand they did.

Senator WEEKS. And you know at the end of the panic they did not have the reserve?

Mr. BASSETT. I am not laying any particular claim against the New York bankers but what they did the best they could for the country.

Senator WEEKS. I am trying to find out what you learned in 1907. Wasn't it a fact that the comptroller's report in December, 1907, shows that the country banks had increased their reserves and the reserve city banks had decreased theirs during the panic?

Mr. BASSETT. I will take your word for that.

Senator WEEKS. You may take my word, but the figures show it.

Mr. BASSETT. You ask if I know it. I am not familiar with the figures enough to know it, at this minute, but I am inclined to think so.

Senator WEEKS. I simply want to determine from you whether you were refused currency by your New York or any other reserve agent?

Mr. BASSETT. Yes; I was, by other reserve agents.

Senator WEEKS. You were by other reserve agents. Now, what would your deposits in a year with your reserve agents amount to?

Mr. BASSETT. The average?

Senator WEEKS. The volume. Last year how much do you suppose you deposited with your reserve agents?

Mr. BASSETT. Oh, I do not know. Our average balance would probably be $275,000.

Senator WEEKS. Do you suppose you deposited $25,000,000?

Mr. BASSETT. Somewhere in that neighborhood.

Senator WEEKS. How much of that was currency?

Mr. BASSETT. A small part of it.

Senator WEEKS. What per cent?

Mr. BASSETT. Five per cent, maybe.

Senator WEEKS. How much currency do you suppose you have received from your reserve agents during the past year? As much as you deposited?

Mr. BASSETT. About 10 times more.

Senator WEEKS. About 10 times more. Now, do you think on the whole (I ask you this question without any prejudice), that you are entitled to ask your reserve agent for something you do not deposit with him?

Mr. BASSETT. Yes.

Senator WEEKS. In other words, if you deposit credit and not currency, do you think you are entitled to currency?

Mr. BASSETT. Yes, sir.

Senator WEEKS. Suppose he sent back the credit?

Mr. BASSETT. I think we are entitled to currency, because we send him items on which he could go over to the Treasury or the subtreasury and get currency.

Senator WEEKS. That is quite true. But in 1907 he could not do it, could he? Now, I am not complaining of you, and I am not complaining of the reserve agent, but I am simply trying to demonstrate that it was at the head the system broke down. The reserve city

banks had no resources from which they could replenish the currency which their customers were entitled to call on them for, and that is one of the things we want to correct now. We want in some way to provide so that the banks everywhere—in the reserve centers and everywhere else—will be able to get circulation whenever they need it—in trying times as well as in normal times; and it is the system, at the head, that broke down in 1907.

Mr. BASSETT. All right; but don't understand me to say I don't think that the currency issue in this bill is not the good feature of it.

Senator WEEKS. No.

Mr. BASSETT. I say it is the good feature, and the only one I see of any moment.

Senator WEEKS. I rather got the impression from your manner of answering Senator Nelson's question, that you were critical of the reserve banks; that they did not do what they should have done in 1907.

Mr. BASSETT. I do not mean to cast that reflection. I mean to say that the panic of 1907, I believe, has caught every conservative banker the nearer home he can keep his reserve the better.

Senator NELSON. That is the point.

Mr. BASSETT. I never had better treatment in my life than from my New York correspondent, with whom I have had an account for 24 years.

Senator WEEKS. You mean in regard to their being mobile, that you can keep your reserve better nearer home?

Mr. BASSETT. In the main, actually nearer home. If there was a reserve city at Minneapolis, I would prefer to keep it as near there as practicable if it will answer my practical purposes for exchange, and I think, to a great extent, that is a reason why the money is now kept in Chicago.

Senator WEEKS. In other words, Chicago banks are stronger?

Mr. BASSETT. Sure.

Senator WEEKS. How much money did you make last year, gross? I do not think I am asking a personal question, because I suppose you make that statement in your statements which you make to the comptroller.

Mr. BASSETT. We do; but that is not for general publication. Individually, as far as my banks are concerned——

Senator WEEKS (interposing). Do you have any hesitation of telling what you made?

Mr. BASSETT. I have no hesitation in telling the dividends.

Senator WEEKS. What is the capital?

Mr. BASSETT. $100,000.

Senator WEEKS. Let us suppose you made $30,000 gross and $20,000 net. What percentage of that was made from exchange?

Mr. BASSETT. There is not enough difference between the two allowances there.

Senator WEEKS. I know there is not; but you are not inclined to tell me what the real facts are, so I am supposing it. I know what the difference ought to be.

Mr. BASSETT. I did not wish to cast any reflection——

Senator WEEKS (interposing). How much of that did you make from exchange?

Mr. BASSETT. About $5,400, in your figures, and that is what our exchange was. I would just as soon tell you that.

Senator WEEKS. Your exchange was $5,400?

Mr. BASSETT. $5,400 last year.

Senator WEEKS. Have you figured out in your own mind whether, if the present bill, the pending bill, became a law, there would be any material saving in exchange to the business community?

Mr. BASSETT. To my own local business community I do not think there would be any.

Senator WEEKS. Of course it is not, I assume, the desire of this committee to do anything to interfere with the normal course of business, but the cost of collections in this country is a very large item. And while we are considering the problem, if there is any way of reducing the cost of collections within reasonable limits, we ought to adopt it. Now, the complaint that has been made by the country bankers, without exception, I think is that if the pending bill is adopted it will materially curtail their earnings, and that is one of the main reasons why they object to it.

Mr. BASSETT. That, I think, is correct.

Senator WEEKS. If it is to curtail their earnings, will there be a benefit to the business community commensurate with that lessening of earnings?

Mr. BASSETT. No, sir; I think not. I do not think there would be any benefit to the business community.

Senator WEEKS. Have you figured that out pretty correctly, so that you feel justified in making that statement?

Mr. BASSETT. Yes; I feel—you understand, not one person or two persons, or two concerns, paid this, but this $5,400 was in 10-cent items, or possibly 15-cent items, scattered over the whole territory over which the checks circulated. That was paid by the Chicago merchants, the St. Paul merchants, and some of it by the New York merchants, and I think the burden of that amount was broadly scattered. It is not a burden, sir, on anyone, and it will make quite a difference to the banker.

Senator WEEKS. Let us take your individual case, Mr. Bassett. If we pass the bill as it came from the House, and it becomes a law, what are you going to do as president of the Aberdeen bank?

Mr. BASSETT. I can tell you what I think I am going to do.

Senator WEEKS. Of course, you can not say definitely because you have your stockholders to consult and your directors, and all that sort of thing. But what would you be inclined to advise them to do?

Mr. BASSETT. I am inclined to think I would advise them to take out a State charter and be able to compete with our neighbors across the street and our neighbors in the other block.

Senator WEEKS. Assume that you do that and the bill passes in its present shape, and the exchanges are so diverted that they go through the regional bank; do you think you are going to be able to compete successfully with the member bank under those circumstances?

The CHAIRMAN. What is that question, again?

Senator WEEKS. Excuse me. I did not intend to turn away from you. I am asking if the Aberdeen National Bank gives up its national charter and takes out a State charter, if Mr. Bassett does that, and a material part of the exchanges are diverted so that they are to go

through the regional bank, if he thinks he can compete successfully with the member bank in his own community.

Mr. BASSETT. Yes; I still think I could. I certainly would not be any worse off than they are, and I might be better off.

Senator WEEKS. Now, from your own standpoint, what do you think we ought to do in changing this bill, to make it satisfactory to you, so that you will become a member bank and so that you will change your State banks into national banks, and they become member banks?

Mr. BASSETT. Well, the recommendations I have been talking about are the changes—two or three of them I have been talking about. One was the change in allowing longer time paper to be used for discount.

Senator WEEKS. Then, if we take your testimony, as your opinion and adopt what you have suggested, you would feel justified in doing that, would you, in becoming a member bank and taking out national charters and having your State banks become member banks, as well?

Mr. BASSETT. Some of them, yes. I am inclined, however, to say this—do not understand me that I am opposed to everything in this bill.

Senator WEEKS. Nobody is, Mr. Bassett.

Mr. BASSETT. I think it has some good features.

Senator WEEKS. Everybody agrees there are a good many good things about it.

Mr. BASSETT. Yes; I do not want you to think, sir, that I think that.

The CHAIRMAN. What are the good features, as you understand it?

Mr. BASSETT. The principal good features—you mean in the bill as it stands?

The CHAIRMAN. Yes.

Mr. BASSETT. Oh, in the bill just it stands, I do not see many good features.

The CHAIRMAN. Do you see anything whatever good in it? If you do, I would like you to mention it. If you do not think there is, I would be glad to have you say that.

Mr. BASSETT. Oh, I do not know as I care to go on record exactly as passing on the bill as a country banker. I do not think I care to put my opinion up against all you gentlemen in the Senate and House about that.

Senator HITCHCOCK. Would you be willing to take it after we get through?

(No answer.)

The CHAIRMAN. Do you know who the author is?

Mr. BASSETT. I assume the names of the parties that appear on the bill.

Senator WEEKS. Mr. Bassett, you were asked by the chairman who, and we would like to know.

Mr. BASSETT. I say I assume the parties whose names appear on the bill.

Senator SHAFROTH. Do you not think the right to go to the reserve bank with 60 and 90 day paper and discount it and get the money for it is a very valuable and good thing in the bill?

Mr. BASSETT. If I had a sufficient amount of that paper I would think it was.

Senator SHAFROTH. Would you not have, if you were in distress, and wanted to get money to meet a run on the bank? Wouldn't you think it pretty much of a salvation to you?

Mr. BASSETT. I am inclined to think that the bill would overcome a panic condition, such as existed in 1907?

Senator SHAFROTH. Are not the panic conditions the most serious conditions to the bankers?

Mr. BASSETT. Yes, sir.

Senator SHAFROTH. And this bill, at least, would remedy that condition, would it not?

Mr. BASSETT. I am inclined to think it would overcome that condition. I do not know as I know of any other features.

Senator SHAFROTH. Don't you think the right to get new currency into your community by hypothecating commercial paper would be a good thing, independent of the amount that is coming to you?

Mr. BASSETT. Do you mean because it is new, instead of old?

Senator SHAFROTH. No; but because there is a shortage of money and there will be more money to relieve a strain.

Mr. BASSETT. I do not agree with you on that point, because I think we would have to pay out more money than we would get back under the percentages required in the act.

Senator SHAFROTH. You would hypothecate your securities. You would not pay any money in the reserve bank. You would go and get money issued to you, according to this bill?

Mr. BASSETT. Oh, yes; you would pay 10 per cent of the capital.

Senator SHAFROTH. I mean in times of stress.

Mr. BASSETT. You would still have times of stress.

Senator SHAFROTH. Certainly, you would; but would that be an inducement, in your opinion? You would be drawing 5 per cent interest and get 40 per cent of the net earnings?

Mr. BASSETT. That is where I differ with you. I do not think we would be drawing anything.

Senator SHAFROTH. That may be, but the bill allows it, anyway?

Mr. BASSETT. Yes.

Senator SHAFROTH. Don't you think you would be drawing anything? Don't you know the United States Treasury would deposit every dollar of general revenues now in these banks?

Mr. BASSETT. Yes.

Senator SHAFROTH. And don't you know that amounts to about $285,000,000?

Mr. BASSETT. I will take your word for the figures.

Senator SHAFROTH. Don't you think that money would earn something to go toward a dividend or interest of 5 per cent on the capital stock?

Mr. BASSETT. If you went into the general banking business, I think it would.

Senator SHAFROTH. They are not going to hold the money away from the people, are they?

Mr. BASSETT. It looks to me like a lovely theory.

Senator NELSON. One thing, Senator Shafroth, you overlook, is that under this new tariff bill they won't have that much money. [Laughter.]

Senator SHAFROTH. That depends. They say they will have $18,000,000 more after that. Don't you think, Mr. Bassett, that would be a great advantage to your bank, if it goes into this thing? It will get such a large amount of deposits on which to loan out, and there may be an income to the regional bank coming back.

Mr. BASSETT. No, sir; I don't think so.

Senator SHAFROTH. You don't think so?

Mr. BASSETT. No, sir

Senator SHAFROTH. You think they are going to lock that up there and not let anybody have any of that money, do you?

Mr. BASSETT. I do not see how they are going to make 5 per cent, unless they go into the general banking business; but I would not pass on that. That is simply my opinion.

Senator SHAFROTH. Don't you think the money you put into this regional bank, as your reserve—do you suppose they are going to lock that up and not have any income on it at all?

Mr. BASSETT. No: I don't think they are going to do that.

Senator SHAFROTH. They are going to let it out, are they not?

Mr. BASSETT. I mistrust so; but it does not say under the bill what they are going to do.

Senator SHAFROTH. The bankers elect six of the board of directors in the regional bank.

Mr. BASSETT. They do not elect anybody on the general board.

Senator SHAFROTH. They elect three directors.

Mr. BASSETT. In the regional bank?

Senator SHAFROTH. Yes. They elect three to represent the agricultural, commercial, mechanical, or industrial interests of the district, do they not?

Mr. BASSETT. Yes.

Senator SHAFROTH. They are chosen by the banks themselves, those six?

Mr. BASSETT. Yes.

Senator SHAFROTH. Are they going to sit down and do nothing with this money and make nothing for the regional bank?

Mr. BASSETT. If the main board tells them to do nothing, I think they will.

Senator SHAFROTH. Do you think the main board would tell them any such thing as that? Do you not think they want to make a success of it?

Mr. BASSETT. Of course, if the Government is going into the general banking business, for the sake of making money, making 5 per cent on whatever money is in that regional deposit, I am, of course, inclined to think the country banker would be more strongly opposed than ever.

Senator SHAFROTH. The powers of this regional board are simply directory and supervisory. They do not go into the loaning and discounting personally. They are not in the banking business any more than the Comptroller of the Currency right now is in the banking business, or to a much greater extent.

Mr. BASSETT. No; but it has a pretty good control, you know.

Senator SHAFROTH. So has the Comptroller of the Currency got a right to make suggestions.

Mr. BASSETT. They are received too, and acted upon.

Senator SHAFROTH. You do not suffer any hardship because of the supervision of the Comptroller of the Currency?

Mr. BASSETT. No, sir; I do not regard him as a competitor. I regard his control as proper.

Senator SHAFROTH. You think when this bank does not receive business outside, in competition with banks, that it is going to be a competitor of the member banks?

Mr. BASSETT. I think it would have to be if it is going to earn its dividends. According to what you say I am not inclined to think so.

Senator SHAFROTH. That is all.

The CHAIRMAN. Who is your other witness?

Mr. BASSETT. Mr. Jewett, a wholesale man from Aberdeen.

Mr. SHAFROTH. I want to ask one more question, please. Do you think that this rate that should be paid to the bank should be 6 or 5 per cent? We have had a great difference of opinion on that.

Mr. BASSETT. I do not think it will cut any figure, because I do not see how it is going to earn either one, so I am as perfectly satisfied with 5 as if you make it 6.

Senator HITCHCOCK. I was not in when you testified in chief, Mr. Bassett, and I wanted to ask you a question, or perhaps a series of questions. Suppose a subtreasury of the United States were located in your State, or conveniently thereto, with the facilities for advancing national banks currency to the extent of 75 per cent of their capital, upon the deposit of adequate security, at a reasonable rate of interest so designed as to force the retirement of the loan within a few months, would that facility be of any considerable addition to the bank facilities of your State?

Mr. BASSETT. Let me ask you, what is the basis of that loan?

Senator HITCHCOCK. The basis would be the deposit with the agent or the subtreasury of adequate security consisting either of United States bonds at par, State bonds at 90, municipal bonds at 90, or commercial paper at 80 per cent of the face value. Suppose there was a subtreasury within a few hours of your town, and you could, upon the deposit of such securities, get as a matter of right 75 per cent of the capital of your bank?

Mr. BASSETT. I think that would be an advantage. I think it would be generally considered by the banks to be an advantage.

Senator HITCHCOCK. It would be in addition to all the other facilities you now enjoy through your banking connections?

Mr. BASSETT. Yes, sir.

Senator HITCHCOCK. What rate of interest, under such conditions, would you consider reasonable?

Mr. BASSETT. I would think there is not any reason why that should not be at the current rate that was in vogue at the time—the current rate for that locality.

Senator HITCHCOCK. What length of time would such discounts generally be required for? How many months?

Mr. BASSETT. You mean in the particular part of the country I represent?

Senator HITCHCOCK. Yes.

Mr. BASSETT. We are obliged to take so much six months', seven months', and eight months' paper that I would say the average would be from five to six months.

Senator HITCHCOCK. Where do you rediscount now?

Mr. BASSETT. If I were rediscounting I would discount with my reserve agents in Minneapolis, for instance.

Senator HITCHCOCK. Minneapolis, Chicago, or New York?

Mr. BASSETT. Minneapolis, Chicago, New York; yes.

Senator HITCHCOCK. And all those facilities under this plan would be retained and this subtreasury would be additional to what you have now and without detracting anything at all from the relations you maintain now? The national-bank examiner comes to your national bank twice a year, about?

Mr. BASSETT. Yes, sir; he comes to our bank about twice a year.

Senator HITCHCOCK. Does he get such a knowledge of your paper as to enable him to pass, in a way, upon its value?

Mr. BASSETT. I think so. He gets a good deal better information about it than he used to. He goes into detail a great deal more than he used to, and the examinations are a great deal better.

Senator HITCHCOCK. He genarally makes a list of large borrowers?

Mr. BASSETT. He makes a list which, I understand, he compares with their reports.

Senator HITCHCOCK. Such a list would be deposited with the subtreasury for reference?

Mr. BASSETT. Yes.

Senator HITCHCOCK. So that the subtreasury would have all the knowledge that the Treasury now has in regard to the national bank in any particular district?

Mr. BASSETT. Yes.

Senator HITCHCOCK. And you think if such an arrangement could be made it would be of material assistance to the banks?

Mr. BASSETT. I think it would.

Senator HITCHCOCK. In times of stress and seasonable demands for funds it would be of considerable assistance?

Mr. BASSETT. I think so.

Senator HITCHCOCK. Have you examined the pending bill in order to ascertain whether an individual bank would, as a matter of right, secure any discounts from a reserve bank?

Mr. BASSETT. From a regional reserve bank?

Senator HITCHCOCK. Yes.

Mr. BASSETT. I would say they could.

Senator HITCHCOCK. Suppose you found there is no provision in the bill assuring a bank which had put in one-tenth of its capital and one-half of its reserve, that its paper is going to be discounted?

Mr. BASSETT. Suppose I found that in the bill?

Senator HITCHCOCK. Suppose you found there is no such provision in the bill making any such guaranty of that sort; suppose that it not discretionary with the regional reserve bank directors. Would you think that is an objection?

Mr. BASSETT. Of course; we object to it as it is now.

Senator HITCHCOCK. I understand you do.

Mr. BASSETT. If we start out on that basis, I think the bill ought to be amended.

Senator HITCHCOCK. That is my opinion. That is what I am calling to your attention, that after a bank has been required to put in one-tenth of its capital and one-half of its reserve, it is given no

guaranty that it can have any part of its paper discounted; that the whole matter is left discretionary with its reserve bank directors?

Mr. BASSETT. I think that should be amended. At the same time I would give the authors of the bill—no one claims authorship—I do not think they played a hocus pocus game. The bill is designed to give banks relief.

Senator HITCHCOCK. We are designing a bill to give each bank certain relief. I want to ask you how much paper you think a reserve bank ought to be required to discount for a member bank?

Mr. BASSETT. You mean what proportion of their capital; on that basis?

Senator HITCHCOCK. Either upon its capital or upon its portfolio of loans. Suppose you are running a national bank, and there is another national bank across the street, and you want to have some paper discounted and you find you are only able to secure discounts to the extent of one-third of your capital, whereas the bank across the street is able to secure discounts to the total amount of its capital. What do you think would be the result of that favoritism?

Mr. BASSETT. It would not be very favorable to me.

Senator HITCHCOCK. It would be a pretty serious matter if your bank was discriminated against?

Mr. BASSETT. Of course, that is one of the objections to the bill, that there is a certain amount of political control.

Senator HITCHCOCK. It is not necessarily political. I think we have got to guarantee to each bank some relief, and upon the other hand, we have got to limit the amount that can be taken by any bank.

Mr. BASSETT. I would suppose that when the question came up, if a bank was unreasonable in its demands, the board of directors of the regional bank would be justified in considering that. I assume the members of that board would be the judges of that fact somewhat.

Senator HITCHCOCK. Suppose you had $100,000 in a bank and you had $800,000 of loans, would you think it would be reasonable for the regional bank to rediscount $1,400,000 of that paper? Do you think there ought to be a limit to make that impossible? Do you not think there ought to be a limit somewhere?

Mr. BASSETT. I think that would be better and safer. I have never been accustomed to borrow and loan again on that. That has not been my training.

Senator HITCHCOCK. You think if a subtreasury plan were adopted 75 per cent of a bank's capital would be a reasonable amount for it to be permitted to borrow of the Government?

Mr. BASSETT. I would think so.

Senator HITCHCOCK. And if all the national banks did that at the same time, that would take out only $700,000,000 of extra currency, and if the banks in different parts of the country would take it out at different times in the year, the amount at any one time would probably not be more than half of the possible limit. What do you say in regard to that proposition?

Mr. BASSETT. That amount of currency would be a safety limit.

Senator HITCHCOCK. Do you think that would be an inducement to increase the capital of banks?

Mr. BASSETT. I think that would apply in the smaller banks of $25,000 capital. I do not believe it would affect the larger ones very

much. Of course, there are quite a good many national banks in which the amount of surplus and undivided profits is much larger than the capital. There might be a little switch there if it was limited to 75 per cent of the capital.

Senator HITCHCOCK. That would be better for the depositors?

Mr. BASSETT. There would be that much more elasticity.

Senator CRAWFORD. Mr. Jewett, one of our wholesale grocers, is here, Mr. Chairman, and would like to be heard.

The CHAIRMAN. At 12 o'clock the Senate meets, and we have therefore only a few moments before that hour in which to hear him at this time. The committee can adjourn at noon to meet on the Senate side of the Capitol; but if Mr. Jewett desires, he can speak to us until 12 o'clock.

STATEMENT OF H. C. JEWETT, OF ABERDEEN, S. DAK.

Mr. JEWETT. Mr. Chairman, I am only here this morning for the purpose of cooperation with Mr. Bassett, from Aberdeen, in regard to the question of the time of the paper in our section of the country.

I have been in the State of South Dakota for 30 years, in the wholesale business, and come in touch with paper of all kinds which comes through the merchants to me, and, as I read the bill, the time is not long enough for paper coming to me through him and his bank. Mr. Bassett asked me to come here and corroborate his statement in that respect.

The CHAIRMAN. What length of time do you extend to your customers?

Mr. JEWETT. It varies. Ours is almost entirely an agricultural country.

The CHAIRMAN. I am asking you about the time.

Mr. JEWETT. Our paper runs either 6, 9, or 12 months.

The CHAIRMAN. You sell goods on 12 months' time?

Mr. JEWETT. If a man can not pay his bill, we take his note, with interest, and we keep it until his crop is harvested. We are able to do it.

The CHAIRMAN. What is the volume of your paper. What time do you give, ordinarily?

Mr. JEWETT. Our regular terms are 30 and 60 days and four months.

The CHAIRMAN. Sometimes you renew it on account of the necessities of the case?

Mr. JEWETT. We may be compelled to.

The CHAIRMAN. It sometimes happens that you will renew it, if necessary?

Mr. JEWETT. That is sometimes the case. We have some accounts which we have to carry for another year, and we put them in the form of notes.

The CHAIRMAN. And you carry it as an open account?

Mr. JEWETT. Yes, sir. Mr. Bassett's suggestion about the time is a very good one, and I came here with him only to corroborate his statement with regard to the time of the paper in our section of the country.

Senator BRISTOW. You discount these notes at the bank sometimes, do you?

Mr. JEWETT. Yes, sir; sometimes.

Senator BRISTOW. You sign them and stand good for them?

Mr. JEWETT. Yes, sir.

Senator BRISTOW. Now, if a bank took those notes and sent them down to Chicago or to St. Paul and sold them to a bank there and you had to pay them when they were due, would your customer know anything about where the notes were when they came due?

Mr. JEWETT. What notes we take, Senator, at the present time, we take to Mr. Bassett's bank. We do business with him. We do not take a certain form of note; we take an acceptance and stamp across it "Payable at the Aberdeen National Bank," at a certain time, and at a certain rate of interest, and it is accepted by him.

Senator BRISTOW. Suppose the acceptance was disposed of at a regional bank and the man could not meet it, what does he do when it is due. Does he pay it, or do you extend it? How do you handle it when it is due and not paid?

Mr. JEWETT. We would have to pay it ourselves and take another note, and take that up.

Senator BRISTOW. Do you have much of that?

Mr. JEWETT. Not much, recently. The item in regard to farm loans is another one of which Mr. Bassett spoke. The average farmer in our country does not borrow money on a year's time for any improvements, or any addition to his real estate holdings. He will borrow for two, three, five years.

Senator BRISTOW. Three or five years, as a rule?

Mr. JEWETT. Yes, sir.

Senator BRISTOW. What do you think of farm loans as security?

Mr. JEWETT. I know of none better.

Senator BRISTOW. A farmer's loan, conservatively made, is as good as anything?

Mr. JEWETT. It is; I should myself so consider it, taking it on a basis of 50 per cent value.

Senator BRISTOW. If there were means provided for a market, a ready market, for such loans, so that a man could have one of them and get cash on it when he wanted it, it would be very advantageous, would it not, to that class of security, in the lowering of the rate somewhat, and make it more desirable?

Mr. JEWETT. In our section of the country?

Senator BRISTOW. Yes, sir; if there was a market for those securities, at all times.

Mr. JEWETT. Yes, sir.

Senator BRISTOW. Now, why should not a farm loan be used as the basis for credit in these regional banks, for curency or for rediscount, or any other kind of business?

Mr. JEWETT. There should be none that I can see.

Senator BRISTOW. And these acceptances of your merchants—they are called here by the witnesses who have been before us, prime commercial paper. Do you think that is any better security than a mortgage on a good farm out there?

Mr. JEWETT. No, sir.

Senator BRISTOW. If you had a lot of funds entrusted to you for investment, where you wanted them to be absolutely secure, and safely invested, would you or not prefer farm loans to these acceptances?

Mr. JEWETT. Yes, sir; I would.

Senator BRISTOW. I am very glad to hear a business man who is dealing in stocks of goods and acceptances, and things of that kind, state what is absolutely a fact, and therefore knows it and will admit it.

Senator CRAWFORD. Mr. Jewitt, the objections in the West, and in agricultural communities to this bill are based very largely, are they not, upon these particular points to which Mr. Bassett calls attention?

Mr. JEWETT. My attention was called to these features of this bill.

Senator CRAWFORD. Outside of that, do you hear objections to governmental control of this bank, and to the mobilization of these reserves, and to having greater elasticity in the currency? Do the people out there really object to those features of this bill?

Mr. JEWETT. I am no banker, Senator. I know something about the banking business through acquaintances with friends of mine who are in the business. I am not a holder of any stock in any bank, but I have, since this matter has been widely discussed, heard remarks by different bankers regarding what bankers think of this matter, and there seems to be among the bankers a very hard feeling against a good many features in this bill as it now stands.

Senator CRAWFORD. Outside of these particular points you are emphasizing?

Mr. JEWETT. Yes, sir. But they are looking at it from their side.

Senator CRAWFORD. I got the impression that the people out there were not hostile to this bill, so far as the other features were concerned, but I know they do object seriously to it upon these points, which have been emphasized here by these two witnesses. I am satisfied on that point, but as to the other provisions of the bill I have not heard much in the way of objections.

The CHAIRMAN. We are very much obliged to you, Mr. Jewett.

Are there any other witnesses from South Dakota who desire to be heard at this time?

Mr. JEWETT. I do not believe there are now.

(Thereupon, at 11.45 o'clock, the committee took a recess until 12.30 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. We will now hear from Mr. James C. Hallock.

STATEMENT OF JAMES C. HALLOCK, OF BROOKLYN, N. Y.

Mr. HALLOCK. Mr. Chairman and gentlemen, you have before you a novice in making addresses. In my experience I have never before had so distinguished an audience as I have the honor of addressing to-day.

The country does not realize the admirable make-up of this committee and its truly representative character. We have on this committee four ex-governors, an ex-lieutenant governor, a former distinguished justice of the supreme court of my State; and every member of the committee is a man of well-known ability. This committee represents four States at salt water—New Hampshire, Massachusetts, Connecticut, and my own State of New York. It represents Ohio,

Minnesota, South Dakota, Nebraska, Missouri, Oklahoma, Kansas, and Colorado.

I have sat here, gentlemen, for two weeks observing your deliberations, and come to the conclusion that you have already agreed among yourselves, as I have observed you, upon all that is essential to give this country relief that they now want in regard to legislation of the character that you are proposing. It will be my object to show you that I have had some experience in the matters I am going to talk about, and that it is perfectly feasible for you gentlemen, inside of one week, to agree upon what you want to do, and that that will be the best result you will ever reach if you take half a year. I have observed you, and you will come to no better conclusion than that. My object is to endeavor to prove that that is the course that should be adopted.

The letter which I addressed to your honorable chairman, asking for a hearing, requested it in order that I might explain, among other things, the real cause of the panic of 1907—

an error of judgment on the part of the New York Clearing House. It was published at the time in the metropolitan press, and throughout the country, but not as the cause. Indeed, when the clearing house committee gave it out, they did not suppose it would be the cause of one. It was not mentioned or intimated in the report of the Pujo committee, and it has been completely lost sight of in the House debates on the pending bank act (H. R. 7837), so far as my observation goes.

Now, gentlemen, I am going to give you a little reference to my ability in the judgment of another person.

Senator NELSON. What was the mistake of the clearing house?

Mr. HALLOCK. I will explain that. It is a very delicate matter. I want to have it understood and, having the proofs, propose to submit them to you to settle the question beyond doubt, that it was no conspiracy but simply an error of judgment. A very serious one; oh, yes; and one that should be provided against.

An ex-Member of Congress whom you all know, Mr. Charles M. Fowler, of New Jersey, cites me in his recent work, Seventeen Talks on the Banking Question, page 293, as "the highest authority in this country upon clearing-house operations." Of course, that is merely his opinion.

In a word, I wish to explain why he should venture any such assertion. My father, way back in 1852, finding the banks of New York without a clearing house and without ability to agree upon establishing one, suggested to them that they should adopt the London plan. There had been a clearing house in London for three-quarters of a century. They said such a plan might be good enough for London, but not for New York. As they could not agree upon a plan, my father said he would get them up one. He went around for 6 months among the banks to see what they could agree on. Ascertaining this, he submitted a plan which they agreed to. I repeated that operation, myself, in Boston. I brought about the clearing of out-of-town checks in Boston by bringing the banks there to an agreement. Here in this little book I have signatures of 42 Boston banks which were brought together by me.

Now, gentlemen, what I am going to try to do in this hour which you have allowed me is to try to bring you together, if it is possible, and I believe it is.

Senator WEEKS. Just a moment. Do you think we should consider any legislation relating to clearing houses in this bill?

Mr. HALLOCK. No; not definitely; not specifically.

Senator WEEKS. I did not know but what you were going on to argue in favor of that.

Mr. HALLOCK. Oh, no; not at all. I will give you definitely all that in my judgment you should consider in regard to this measure to make it one of the greatest bills ever passed in our history. Having observed you, I believe you have already agreed, in substance. All I propose is a synthesis of your ideas, so that you can get together and end the suspense that is now felt throughout this whole country in regard to what you are going to do. My argument will be devoted to the question of reaching a wise conclusion, so that Congress may adjourn and go home.

Senator NELSON. Is not the country in a prosperous condition now?

Mr. HALLOCK. I am glad you asked that question. I came to this city to make a panic less liable than it is to-day. When we come to the question of what the panic of 1907 really was, we shall then better understand the present dangers.

Before the panic of 1907 the Secretary of the Treasury began to distribute money throughout the United States. He gave that order on the 22d of August, 1907.. He commenced to distribute some $25,000,000 on the 28th of August and made weekly deposits with banks, principally in the West, South, and Southwest, until the 14th of October. The next week we had a panic.

To-day the Secretary of the Treasury is doing a similar thing. Theoretically he is preparing for some kind of trouble. What was done by Secretary Cortelyou was of no use whatever, and what is being done now is useless so far as preventing a panic is concerned.

There are two fundamental principles in regard to panics. In order to prevent a panic you must act before it starts is the first thing to understand. The second thing is that you can have no panic in this country which does not start in the city of New York. And why? Because this country, in its banking relations, is, as it were, a great network of wires that run down to one wire in New York. If that one wire comes down or the trolley goes off the wire, you have a disturbance that affects the whole country. That is what the panic of 1907 was.

Before the panic of 1907 I knew that one was coming. Permit me to read what I published at the time.

Senator NELSON. When was that published?

Mr. HALLOCK. That was published on the 28th of January, 1907. I had made up my mind that a panic was coming.

The CHAIRMAN. You may give it to the stenographer and not take up the time reading it now.

Mr. HALLOCK. I would like to read at least a part.

The CHAIRMAN. You may read.

Mr. HALLOCK. It was from reading Secretary Shaw's report for 1906 that I made up my mind the Government was rocking the boat. Upon this theory I proceeded, and certainly was not mistaken. I said in this publication:

According to his report, in midsummer of 1906, "he withdrew from the channels of trade $60,000,000 and locked it up. This was accumulated in part by excessive revenues and in part by deliberate and premeditated withdrawals."

He acknowledged elsewhere that would have been a crime under ordinary circumstances. He says "his only excuse for withdrawing the people's money when they (the banks) did not need it and when its presence invited speculation was to have it ready to restore when they did not need it and when its absence would bring certain disaster." The Secretary reports that in 1902 "he restored to the channels of trade somewhat over $57,000,000," and in 1903 "there was restored" $27,000,000. During the calendar year 1906 he increased the public deposits in national banks $94,000,000. This amount had been withdrawn from the "channels of trade" and restored. In September he restored $26,000,000 upon the understanding that it was to be withdrawn about February 1, 1907. Later he restored more on similar terms, so that the question of withdrawing over $30,000,000 is now up.

An interesting inquiry presents itself. Restoration implies previous withdrawals. May not withdrawing the funds have caused the crisis which they were restored to relieve? If business men went to their banks and demanded payment in coin or currency, how long would it take to reach a crisis?

Perhaps I ought to explain what is referred to in this paper. When the Government took money out of the banks it took actual money out of their reserves, which disturbed the basis of their loans and business. When the Government put money into the banks it was done the same way. It was not checked in and out. Hence the withdrawal of $60,000,000 in such a way was a very serious operation.

Shaw withdraws from banks more money than merchants would have to to precipitate a crash. Therefore the presumption is that the Secretary every year brings on a crisis by withdrawing funds from the "channels of trade" and meets it by restoring funds.

President Roosevelt had written him a very complimentary letter saying that he had saved us five times from the effect of an annual crisis. In this publication I called Secretary Shaw the checkless, because he was not checking the public money in and out of the banks, but putting money physically into the banks and taking it out physically.

The CHAIRMAN. You mean by that it would affect credits to a larger degree——

Mr. HALLOCK (interposing). Yes; just as they say of J. P. Morgan, that the Government gave him $25,000,000 which he used on the stock exchange. You can not use a single dollar bill or coin on the stock exchange. What he did, and very properly so, was to have that money put in banks and made the basis for their loans. With that deposit of $25,000,000 the banks could loan $100,000,000, four times the amount. To continue:

Shaw, the checkless, recommends to Congress giving the Secretary $100,000,000 to be deposited with the banks or withdrawn, as he might deem expedient. He would have the whole business of the Nation at his mercy. No mortal should have such power, least of all an official who abhors a check book, and, in drawing money out of a bank, demands coin or bills like a scared depositor in a run on the bank. Shaw would contract the national bank circulation at pleasure, enable banks to import gold, influence financial conditions throughout the world, and prepare to avert any panic in the United States or Europe. In short, Shaw would create a Treasury colossus, and the unnatural thing he would convert the Secretary into recalls a strange tale.

In 1816 Byron proposed to Shelley and his wife that each of their poetical circle should write a ghost story. And on a dreary night in November Mrs. Shelley thought of the story which made her famous: Frankenstein, a too learned physician, collects from dissecting rooms all the parts of a human being, molds them into a man of gigantic stature, about 8 feet high and proportionately large, and galvanizes into life a hideous, misshapen, uncouth, desperate demon, who, full of resentment for being called into existence, murders by degrees the whole family of his creator, Frankenstein.

Senator NELSON. We are very busy and have got to go upstairs into the Senate Chamber, and can you not give us your views in regard to what you said? Give us your views now, as clearly as you can, without reading what your views were at that time. You expressed those views 8 or 10 years ago.

Mr. HALLOCK. Senator, I will tell you the trouble with the present situation. You had a banker here from Lawrence, Mass. He told you exactly the situation of his bank and how this measure would affect him.

Senator NELSON. What I would like from you, and you will excuse me, I do not wish to break into the thread of your argument. There is one point about which you can give me a whole lot of light which has always been something of a mystery to me, and that is what was the particular and direct cause of the panic of 1907?

Mr. HALLOCK. I am going to tell you that in detail, just exactly what it was.

Senator NELSON. Why not tell us now,

Mr. HALLOCK. I do not like to be hurried over that.

Senator NELSON. My idea is that you should tell us what brought on that panic, from your standpoint. Then you referred to the mistake of the clearing house; tell us just what that mistake was.

Mr. HALLOCK. I will, sir.

Senator NELSON. You must excuse me for being blunt.

Mr. HALLOCK. Certainly, sir.

Senator NELSON. I want information, and I do not think it is necessary for us to go into ancient history. I do not think you need to take the time to give us what you wrote such a long time back. Give us your views now.

Mr. HALLOCK. I want to show you the exact situation.

Senator NELSON. Can you not show us what brought on the panic of 1907? What was the cause of that panic?

Mr. HALLOCK. Oh, yes; I can show you that. In my opinion, the measure that was most needed early in 1907 was one to permit the deposit of customs receipts in banks, which had been forbidden by law since 1846. After the agitation that I started Congress passed the act of March 4, 1907, which struck out four words "except receipts from customs" from section 5153, Revised Statutes, and for the first time in 61 years permitted the deposits of customs in banks. What did the Treasury Department then do? It refused to carry out the law fully, applying it only outside of subtreasury cities. In the subtreasury cities eleven-twelfths of the customs revenues were received. The law was thus enforced where only one-twelfth of the customs revenues were collected.

Senator NELSON. Please state what you think brought on the panic. I have been curious on that point all this time.

Mr. HALLOCK. Senator, I will submit to you the proofs. This is not my opinion merely.

The CHAIRMAN. Go ahead and do it now.

Senator NELSON. I made a speech on that subject once, Mr. Chairman; it was a speech in favor of protecting depositors in banks, and I stated my views as to what the immediate needs of the bank were, and I wanted to know whether I was mistaken on that.

The CHAIRMAN. I would like Mr. Hallock to state it.

Mr. HALLOCK. Just give me a moment. Up to the time of the panic——

The CHAIRMAN. I think we will save time by letting you alone.

Mr. HALLOCK. I will go right ahead; you have very kindly given me the floor.

I heard Mr. Untermyer give his testimony before this committee, but I did not know until he came back the next week what he really had in his mind.

The CHAIRMAN. I wish you would confine yourself to the panic of 1907.

Mr. HALLOCK. Yes, sir; and I want to explain why I happened to know about that.

The CHAIRMAN. I do not want you to do that. We are waiting on you and we want you to go ahead.

Mr. HALLOCK. Then I must put this in, at least, that in March, when I found that the law authorizing the deposit of customs receipts in banks was not carried out in any subtreasury city, I came on to Washington——

Senaor NELSON. Hold on. That law was passed after the panic.

The CHAIRMAN. No; in March they struck out the four words which Mr. Hallock has referred to.

Mr. HALLOCK. Yes; and I came on to Washington and stayed in this town 15 months, at the elbow of the Secretary of the Treasury, trying to prevent this panic. The Aldrich-Vreeland bill was passed afterwards, but this was another measure, a short measure, passed on March 4, 1907. I came here and want to state why——

Senator NELSON (interposing). I think you are right about the date. Now, your opinion is that the Secretary was not complying with the law in depositing part of the Government receipts in the subtreasury instead of the banks?

Mr. HALLOCK. I do not say that.

Senator NELSON. That was one of the causes.

Mr. HALLOCK. I do say this that if the Government had deposited those receipts in the New York banks and had checked out the deposits the situation would not have been so tense as it was, and then this mistake that the banks made would not have occurred. That is the real reason why I wanted to explain the situation, so you will understand it before we come to the panic; otherwise it would be like a piece of gossip which I was telling you, and I have no such desire at all.

The Government would not deposit its customs receipts in New York banks. If the collector had deposited his receipts in banks, the importers would have paid in checks, which he would have received, just as collectors received them in the case of internal revenue. That was not done. Therefore the situation in New York was very peculiar. There were very large payments made for imports and banks had to settle in actual cash with the Government, and the Government would lock it up. This disturbing element, you must remember, was introduced through mismanagement of our Treasury Department.

Now I am ready to go on with the panic.

Senator NELSON. I want to say to you that I am interested in legislation in the Senate Chamber, and I am sitting here at the sacri-

fice and neglect of my duties upstairs. But I will not stay unless you get to the point without any further loss of time.

Mr. HALLOCK. I come to it now.

The CHAIRMAN. You have now stated that the Government withdrew currency instead of leaving it on deposit in the banks. Was that one of the contributing factors?

Mr. HALLOCK. Yes, sir.

The CHAIRMAN. I understand you.

Mr. HALLOCK. Now, I am ready to give you the other part.

The CHAIRMAN. Please proceed.

Mr. HALLOCK. There was a speculation in copper, in shares of the United Copper Co.

Senator NELSON. Yes; I know about that.

Mr. HALLOCK. There were great losses, and all that sort of thing, which involved the president of a bank, Heinze, head of the Mercantile National Bank. The failure of the concern he was connected with in that speculation involved him to such an extent that the banking community were able to drive him out of the control of his bank. He and Mr. Morse and Mr. Thomas have been acting in ways that were very offensive to the New York bankers.

Senator NELSON. They were presidents of trust companies?

Mr. HALLOCK. No, sir; Mr. Morse was president of the National Bank of North America. Mr. Thomas was president of the Consolidated National Bank, and also connected with a chain of banks. But they had excited the animosity of the bankers. You must understand that. Then came this incident on the stock exchange connected with speculation in United Copper shares, I think it was, that went to smash, and Mr. Heinze could not remain as president of his bank without aid from other banks. They drove him out.

Senator NELSON. That is what started the prairie fire; you are on the right track now.

Mr. HALLOCK. Yes, sir; he was the first man. Then there was another man doing the same kind of work whom they were after, and that was Mr. Morse. Understand, I am not saying the bankers of my town are different from other people. These men had done things they did not approve of and they thought they were justified in taking some action.

You see, his bank had about $20,000,000 of deposits, largely due to interior banks. Just about this time there was a pressure on New York to send out currency. You know there was a general feeling of unrest coming on, and the correspondents of the National Bank of North America needed funds. The bank had to supply them. Pretty soon it got to a point, while the bank was perfectly solvent, where they had not the cash to send out, so they had to go to the clearing house for aid, and that moment the clearing house people knew they had Morse. So they put Morse out of his bank on Saturady night.

The CHAIRMAN. That was October 19?

Mr. HALLOCK. October 19, yes.

Senator NELSON. You are on the right track now. They started in to wipe out those fellows and punish them, and it was like a prairie fire; it got away from them.

Mr. HALLOCK. Yes; and I will get to that in a minute.

Senator NELSON. They did not intend, at the beginning, to do anything but go in and punish a few men.

Mr. HALLOCK. I will give you absolute proof of that.

Senator NELSON. I am beginning to think you are a statesman now. Go no. [Laughter.]

Mr. HALLOCK. Now, we got to Saturday night, and these bankers had been working hard all of Saturday to get rid of Morse. It was their chance, and their turn came late at night.

The CHAIRMAN. They told Morse to retire from his banks?

Mr. HALLOCK. Yes.

The CHAIRMAN. Did they not inform him they would not clear for his banks unless he got out?

Mr. HALLOCK. Practically; they must have done that.

The CHAIRMAN. He agreed to get out?

Mr. HALLOCK. They forced him out.

The CHAIRMAN. He agreed to get out?

Mr. HALLOCK. Oh, they forced him out; or, of course, they would have forced his bank to close. The next day is Sunday.

The CHAIRMAN. What happened on Sunday?

Mr. HALLOCK. I will tell you.

Senator NELSON. They did not go to church? [Laughter.]

Mr. HALLOCK. No; they did not. Something happened on Sunday the newspapers did not find out.

Senator NELSON. What was that?

Mr. HALLOCK. Something that on Monday the editorial comments of no New York paper, and of none in the country, contained the least notice of.

Senator NELSON. It was on that Sunday they were laying the plans to gobble up the Tennessee Coal & Iron Co.?

Mr. HALLOCK. No; that was a mistake. They were not thinking about that. That was not in their minds at all. They had no other intent than to clean house.

The CHAIRMAN. Please tell us what happened.

Mr. HALLOCK. A man had occasion to go down town to the Wall Street section on that day.

Senator NELSON. On Sunday?

Mr. HALLOCK. On Sunday; and to his great surprise he found the streets there, which are usually deserted on Sunday, lined with automobiles. He recognized the automobile of a bank president he knew very well. He went up to the chauffeur and asked, "Where is the boss?" The chauffeur replied, "I do not know."

Then this man did a little thinking. He thought there might be something going on at the clearing house, so he walked around the corner to Cedar Street, and noticed that the door of the clearing house was open, as on week days, with the same porter there he was in the habit of seeing at the door. He had the cleverness to ask no questions, but nodded to the porter and went upstairs. When he got upstairs he saw some 20 or 30 bankers. When they perceived him, one of them exclaimed, "Oh, this will not do." He pleaded, "I don't leak." Something was going on, and he said, "I have got to say something," meaning, I suppose, in his paper. In other words, he was in there and not going out, if he could stay. Pretty soon a banker over in one part of the room sang out, "Tommy is good enough for me." So Tommy stayed. In other words, they could not get rid of him, and he went with the bankers into their secret conclave.

The CHAIRMAN. What occurred?

Mr. HALLOCK. This occurred: A proposition was presented to the body that they should rid the banking community of Heinze and Morse and Thomas.

Senator NELSON. Out of the clearing house?

Mr. HALLOCK. Not only out of the clearing house, but out of the banking business.

The CHAIRMAN. As officers and directors of these banks, you mean?

Mr. HALLOCK. Yes, sir; and when they proposed this, this interloper, who, I like to believe, represented the people, got up and said, "If you do that there will be a panic."

Senator NELSON. Do you know his name?

Mr. HALLOCK. Never mind, let me go on with my story. He said, "If you do that there will be a panic," and some one said, "It will all be over in three days." That was the belief of those men about what they were doing. Then they went on and discussed the matter further, and this man could not keep still. He was interested in banks. He was thinking, perhaps, of the effect it would have on his bank, and in a week or so he was behind its counter during a run on his own bank. He got up a second time and warned them that a panic would come.

The CHAIRMAN. In this Sunday meeting?

Mr. HALLOCK. In this Sunday meeting; yes, sir. That is, one of the Sunday meetings.

The CHAIRMAN. You are on the first Sunday meeting; do not get away from the first Sunday meeting.

Mr. HALLOCK. I will not; but the directors of the National Bank of North America and the directors of the Mercantile National Bank were also having meetings that same Sunday to elect successors to Morse and Heinze.

Now I have told you what I have learned from a man who volunteered the information to me and I have no intention of telling his name. It is not necessary, because the clearing-house committee met that night and made their own confession to the Associated Press and telegraphed to the corners of the earth.

Senator NELSON. What was that?

Mr. HALLOCK. I will show you.

Senator WEEKS. Do you think you ought to come here and repeat a matter of that sort without furnishing this committee with the information on which it is based?

Mr. HALLOCK. I will give you the information.

Senator WEEKS. I mean the man's name. You were merely told about this matter.

Mr. HALLOCK. Yes, sir; in one sense it is merely hearsay.

The CHAIRMAN. There were 20 men present, you say?

Mr. HALLOCK. He said there were.

The CHAIRMAN. Did not the newspapers say that, giving the names of all the men who were there?

Mr. HALLOCK. Yes.

The CHAIRMAN. And it appeared in the public prints the next morning?

Senator WEEKS. Did this man's name appear?

Mr. HALLOCK. No.

The CHAIRMAN. It is easy enough to ascertain from these men, to summon these men. We can summon these men.

Senator NELSON. I would like to have them here. That was merely started to freeze out two or three men, and it got away from them. That was the trouble, and I want that feature of the case investigated to the bottom, as it has not been done so far. I want to have these men shown up.

The CHAIRMAN. We can summon them all; do not be troubled about that.

Senator WEEKS. Mr. Chairman, I am not troubled about anything; and I am not disturbed about this. But I do not think a witness ought to come here and give us anonymous information. I think that he ought to assist the committee; and if the committee is willing to give its time to listen to him, he ought to assist the committee to the limit of his information; then we could very easily determine whether we wanted to summon 15 or 20 men, if we had the man who furnished him with this information come before the committee, in order to find out what he really knew. It is not necessary to get excited about this matter at all. But I want to enter my protest against the committee having to listen to anonymous information.

Mr. HALLOCK. If that was all the information I had, the case would be different. I have had that information since 1908. The man who gave it to me has never published it, and has no disposition to.

The CHAIRMAN. Go ahead with the facts.

Mr. HALLOCK. I am going to call your attention to a statement of the clearing-house committee, about which there is no question.

The CHAIRMAN. That appeared in the public prints?

Mr. HALLOCK. You will find it in all the New York newspapers of that date. I got this from the New York Times of the following morning, October 21, 1907.

The CHAIRMAN. Read it into the record.

Mr. HALLOCK. "At a late hour last night the Associated Press was assured by the clearing-house committee that the Heinze, Morse, and Thomas interests had been eliminated from the banking organizations of New York City."

You observe this is not my statement. But, first, I would speak about my informant. If I should give his name it might hurt him. He told me something as a matter of information. If he gives me permission, and you insist upon it, I will tell you his name; but if he does not give his permission you will never get his name from me, no matter what I may suffer. You have the proof here from the clearing-house committee itself of what occurred.

Senator NELSON. The papers show that on that Sunday they had decided to eliminate those men from the banking world?

Mr. HALLOCK. What I read you is from the New York Times, which is on file in the Library of Congress; and if you are not satisfied with what the Times says, you can read it in the Tribune, the World, the Herald, or any New York papers.

(Copious extracts from New York dailies and the Washington Post will be found at the end of Mr. Hallock's statement.)

The CHAIRMAN. Go on with your next statement.

Mr. HALLOCK. You understand, I know these bankers——

Senator NELSON (interposing). Go on and tell us what they did.

Mr. HALLOCK. They are good men, and what I say is not reflecting on them personally. They simply thought they were correcting an evil, and did it in their way. I admit what they did was a criminal act, according to the laws of New York. It was conspiracy against the property rights of Morse, Heinze, and Thomas. These conspiring bankers could have been punished, but the statute of limitations protects them now. The usefulness of this statement is that it disposes once for all of the accusation against the bankers of my city that they intended to bring on a panic. They did not. They brought it on, but did it through ingnorance, without realizing the effect of what they did. That is the conclusion I want your committee to understand.

The CHAIRMAN. Give us the facts, Mr. Hallock.

Now, the New York Times of Sunday said:

> As the result of the steps taken by the banks the weekly statement was one of the strongest made at this season of the year, etc.

The addition of $6,000,000 to the surplus, cash increasing and loans decreasing, etc., increased their reserve so that when this panic broke out they were apparently better off than usual at this season. It simply brings us back to that act of elimination as the cause of the panic.

You understand the Mercantile National Bank, of which Heinze was president, and the National Bank of North America were both original members of the clearing house. The Consolidated National was not a member, I believe. How is that, Senator Weeks?

Senator WEEKS. I do not remember myself.

Mr. HALLOCK. At all events, the other two were old respected members of the association. So the clearing-house bankers turned on their own people, but did it, as they thought——

The CHAIRMAN (interposing). We do not care about conclusions; just give us the facts.

Mr. HALLOCK. I may call attention to this statement in the report of the Pujo committee:

> The panic of 1907 started with the closing of the Knickerbocker Trust Co., which followed immediately after the announcement of the National Bank of Commerce of New York—the trust company's clearing agent—that it would no longer act as such.

The CHAIRMAN. What day of the month was that?

Mr. HALLOCK. I am coming to that now.

The CHAIRMAN. I want to know the day if you know it.

Mr. HALLOCK. It was Monday, the 21st, the day following that Sunday. This notice was given by the National Bank of Commerce——

The CHAIRMAN (interposing). That was the 21st of October?

Mr. HALLOCK. Yes.

Senator SHAFROTH. 1907?

Mr. HALLOCK. Yes. The trust company attempted to keep its doors open on Tuesday, although it was not to have its checks cleared after that day, and closed them at 12 o'clock after paying out $8,000,000. Thus closed the Knickerbocker Trust Co.

The CHAIRMAN. What became of the president of the Knickerbocker Trust Co.—Mr. Charles Barney?

Mr. HALLOCK. He finally destroyed himself.

The CHAIRMAN. Committed suicide?

Mr. HALLOCK. I believe so.

This eliminating action of the clearing-house committee brought on the panic by starting a run on banks; not so much a run on their counters as a run by drawing checks for the purpose of transferring funds to banks that the depositors considered safe, which, of course, resulted in a very large amount of checks to pay. For instance, the National Bank of Commerce had a debit balance at the clearing house of $7,000,000 which resulted from this drawing on the institutions that it was clearing for. It was a very critical condition for a clearing bank to be in.

Now, the New York Sun on October 21 had these headlines over its story of what had happened at the clearing house on Sunday: "Finds its banks are solvent—Any clearing-house bank that may need cash will get it now." This suggested that the trust companies would not get it; and a number of overprudent people did draw their funds from the trust companies.

The CHAIRMAN. Did not this meeting on Sunday declare the banks solvent that had been run by Morse and Heinze?

Mr. HALLOCK. Oh, yes.

The CHAIRMAN. They declared those banks solvent, did they not, and gave it out to the press?

Mr. HALLOCK. That is, solvent so far as paying depositors was concerned. They admitted earlier that there was some impairment of capital and surplus, but from the public's standpoint, the protection of depositors, they were solvent.

Senator NELSON. And still they refused to clear for them the next day?

Mr. HALLOCK. But, you see, this announcement in the Sun and other dailies started everybody that had an account in the Knickerbocker Trust Co. to draw on it, and those checks had to be cleared by the National Bank of Commerce, so there was no telling how many millions the National Bank of Commerce would have had to pay if they had not refused to clear. From the ordinary standpoint they were justified in acting so, but the point I am making here is that the panic did not start with the closing of the Knickerbocker, but the Knickerbocker's closing was a result of the action on Sunday, and that action was not intended to bring on the panic in any way, but was an error of judgment.

I need not say much more except this: On that Sunday there was a syndicated article, a written interview with Mr. Rockefeller, printed in the New York Times——

The CHAIRMAN (interposing). John D. Rockefeller?

Mr. HALLOCK. Yes; printed in the New York Times with this title spread across the page, "Rockefeller sees no portent of disaster." That same article was printed in the Washington Post under the title "Time for patience." In other words, our greatest expert in acquiring wealth saw no portent of disaster. I knew a panic was coming as early as January, 1907; came to this city in March, 1907, and remained here 15 months trying to stop it.

Senator NELSON. Tell us what other causes directly led to that panic.

Mr. HALLOCK. I have told you the whole story.

The CHAIRMAN. Is it not a fact, Mr. Hallock, that beginning in January there were important constrictions of credit in New York and that the interest rate went through a violent fluctuation, up as high as 40, 50, and 60 per cent?

Mr. HALLOCK. There were. And in March there were occurrences that made a number of prudent bankers put their houses in order.

The CHAIRMAN. Was there not a general sentiment throughout that section that there was danger of constriction at hand?

Mr. HALLOCK. There was no feeling of apprehension in New York that we were going to have a panic. The panic was as unexpected and unnecessary as the shooting of McKinley.

The CHAIRMAN. Was there not an important reduction of loans, as much as $50,000,000 on the loan side, during those months, from month to month, between January and July?

Mr. HALLOCK. I did not go into that at all. But let me tell you——

Senator WEEKS. Have you any information?

The CHAIRMAN (interposing). I will put in the record a table of those fluctuations of interest, and also of loans.

Mr. HALLOCK. Let me show you the way I look at it. Take the Brooklyn Bridge. It will carry a great load of passengers, but if you should put the whole load on one hanging section of the bridge it would buckle. You must keep the load moving. Whether a few pass over the bridge or a crowd makes no difference.

So it is with New York. New York can stand anything that happens unless the trolley goes off the wire or the wire comes down. That is what happened at New York in 1907. You may have the same thing over again if you press this bill in the form proposed. Mr. Untermyer, the other day——

Senator NELSON (interposing). Now, here, I want to bring you to another point. I want you to tell us what you know about how Mr. Morgan saved the country by laying the foundation for the consolidation of the Tennessee Iron & Coal Co. with the Steel Trust?

Mr. HALLOCK. He did not save it at all. Look at it this way——

Senator NELSON (interposing). How was that brought about? Was not that on Sunday?

Mr. HALLOCK. They do many things on Sunday in New York. But you must look upon prosperity as a beautiful vase——

Senator NELSON (interposing). Now, don't go into poetry; give us the facts.

Mr. HALLOCK. But this is so pretty——

Senator NELSON (interposing). Give us the cold lead.

Mr. HALLOCK. Senator, let me drop this vase. While you have it whole, you know, it is all right. If you drop it, it breaks. When Mr. Morgan came in the thing had broken. I am trying to call attention to the necessity of preserving prosperity and preventing these accidents.

I would not say a thing against my own people; would not soil my own nest. A New Yorker born and bred, I am proud of my city, the greatest port on the face of the earth——

The CHAIRMAN (interposing). Let me call your attention to the fact that ought always to be remembered in these discussions when you talk of New York, that New York contains everything that is good and everything that is bad in human nature. Proceed.

Mr. HALLOCK. We are well supplied in every particular. I have nothing to say about the Morgan matter.

Senator CRAWFORD. Don't you think these panics come on at a time when they ought to loosen up and use these reserves; but, instead, they turn around and each fellow goes to hugging his reserve and cutting down on loans, and, of course, the result is stringency and panic?

Mr. HALLOCK. Nothing of that kind, in my estimation.

Senator NELSON. I want to bring you to this clearing-house matter.

Mr. HALLOCK. I will bring it to you——

Senator NELSON (interposing). I want to put you on the track of one thing. Was not one mistake the clearing house made in 1907 in not pursuing the course that the New York Clearing House had taken in the panic of 1873——

Mr. HALLOCK (interposing). What was that? I tried to stop that panic myself.

Senator NELSON. I thought you were an expert on clearings.

Mr. HALLOCK. They had the panic, didn't they? I believe in preventing panics, and every great panic we have had since 1837 might have been prevented had the clearing-house management followed the advice of my father——

The CHAIRMAN (interposing). What was that advice?

Mr. HALLOCK. Why, in the panic of 1857, you know, they had no currency, Government currency, but only State bills of different kinds. In Massachusetts they had the Suffolk Bank system, by which an excellent currency circulated throughout the six States of New England. In New York we had a fair arrangement, not by cooperation of banks, as it was in Boston, but through the action of individual banks. So we had a great deal of currency, but much of it was stuff you could not handle at all without loss.

So the city banks had no medium of settlement except gold. When this panic of 1857 occurred there was such a demand on the little gold in their vaults that the banks had no means of providing for payments among themselves, settling their balances. Finally they adopted this device: Settlement in their own bills, which were made up in bundles of, say, $5,000, and those bundles were passed back and forth from bank to bank at the clearing house. It was the only means they could think of.

The CHAIRMAN. What was your father's advice?

Mr. HALLOCK. His advice was that the clearing house should rediscount for members. They afterwards did this, but also issued clearing-house certificates, which makes a complex operation of it.

The CHAIRMAN. We understand the clearing-house certificate.

Mr. HALLOCK. I am afraid the committee do not.

The CHAIRMAN. What was your father's advice? We want to get back to your father's advice, by following which panics could be prevented.

Mr. HALLOCK. The first element is rediscount.

The CHAIRMAN. That is what he advised?

Mr. HALLOCK. That is part of it; not in those terms. The idea was that a bank that had securities could bring them up to the clearing house and get credit for the amount agreed upon. That is rediscount.

The CHAIRMAN. That is the very basis of this proposal now, is it not?

Mr. HALLOCK. Yes; but you introduce an element that I am trying now, in my explanation, to keep out.

The CHAIRMAN. What is that element you think ought to be kept out?

Mr. HALLOCK. That the discount must necessarily be paid in notes. Witness after witness has shown you that banks do not require notes upon receiving a rediscount. Take, for instance, the great Baring operation, where the Bank of England agreed to take over securities and grant a rediscount of £11,000,000.

Senator CRAWFORD. What do you want? To give them credits?

Mr. HALLOCK. Yes.

Senator CRAWFORD. And treat that just as the Bank of England does? Call that gold?

Mr. HALLOCK. Yes. That, in general, was what my father suggested.

But, as I said, I have definite propositions that I want to make to this committee, so that this committee may agree inside of a week on a measure that will meet with the approval of the whole United States.

The CHAIRMAN. Go ahead; state your proposition now; we are ready for it.

Mr. HALLOCK. You know I am inexperienced in public speaking, and my plan has been broken up a little. I want to introduce one or two facts.

The CHAIRMAN. We want your propositions now. You want to tell us how to fix this bill.

Mr. HALLOCK. Yes, sir; but I want to give you an idea of the significance of what I am going to say.

The CHAIRMAN. We will determine the significance of it after you say it.

Mr. HALLOCK. Well, now, gentlemen, that was done before, and I do not know whether you were satisfied with my statement of the panic or not. I would have stated it a little differently.

The CHAIRMAN. You have stated it clearly.

Mr. HALLOCK. If you are satisfied, I am, and we will let that go. I will bring it to a conclusion in a moment.

The cashier of the bank at Lawrence, Mass., gave you some very valuable information. He told you how, during the panic of 1907, he had no trouble in obtaining all the currency he needed for his pay rolls, and that he obtained that currency from his correspondent in Boston. He also told you he did not know where the Boston banks got that money. Now, that is a thing I want to explain, so that the committee can understand it.

Why was it that in Boston the banks had no trouble in supplying all the banks of New England with all the currency they needed? As Senator Weeks brought out from him, the witness did not know of any bank in New England that did not have all the currency it needed during that panic for the transaction of its business.

I want to base something upon that fact and will tell you where that money came from. Remember currency is only needed in banking for certain purposes. For other purposes it is a nuisance, an expense, and banks do not want it. They would like to throw it out

of the bank and put the amount into other forms. It bears no interest, you know, and has other disadvantages.

My father, as I told you, in 1853 brought about the agreement among the New York bankers to adopt a plan of clearing city checks. In 1854 the bank clerks brought to our house the silver pitcher, of which this is a picture. [Exhibiting it.] I witnessed their presentation of this pitcher to my father, and there my knowledge of the clearing house began. These clerks declared my father the originator of the clearing house in America. It began operations in 1853, and this pitcher was given in 1854, after my father had been assistant manager of the New York clearing house.

Senator NELSON. Now, come to the bill, or I shall have to leave you.

Mr. HALLOCK. Just let me finish this. I brought about in 1898 and 1899 the clearing of out-of-town checks in New England.

Senator CRAWFORD. Tell us where that money came from.

Mr. HALLOCK. I am going to.

Senator CRAWFORD. It takes you too long to get to it. We do not care for pictures and that kind of thing. Tell us where that money came from.

Mr. HALLOCK. It was because the New England banks had a means of clearing their out-of-town checks through Boston; that is, they could do with checks all the business that could be done with checks. Therefore they did not have any unusual need for currency, and they had too much sense to lock it up in their vaults. They kept on hand the amount needed, and the New England bankers outside of Boston shipped their excess currency to Boston, so there was always a supply on every hand.

The CHAIRMAN. Then the point is, Mr. Hallock, that the clearing of these checks through Boston in this convenient way resulted in a less strain upon the currency?

Mr. HALLOCK. That is it.

The CHAIRMAN. That is what you want us to understand?

Mr. HALLOCK. Yes, sir.

The CHAIRMAN. Then, would not the clearing of these checks through the new reserve banks at par have a like effect?

Mr. HALLOCK. Oh, but now you are taking up another subject. That would be an admirable system, and the New England banks, a great many of them, would like to have that kind of a system. But you have heard here that other banks, in Mississippi and other States, do not want to have anything of that kind.

The CHAIRMAN. Oh, yes; I think we heard something of that kind. I am asking your opinion.

Mr. HALLOCK. That is true, sir.

The CHAIRMAN. What is your opinion about it?

Mr. HALLOCK. It is a digression, but I will give it to you. Such collections by the reserve bank would bring about a state of things which, so far as the discussion has proceeded in my presence during the last two weeks, is not considered at all by this committee; and, so far as I know, it is not considered anywhere, except that I presented it——

The CHAIRMAN (interposing). Do you favor it or not, and if you do not favor it tell us why you do not.

Mr. Hallock. Put it that way then. It was suggested to forbid the central bank handling checks. You know that is one of the suggestions or amendments.

The Chairman. I am asking your opinion as to whether it is a good thing or a bad thing, and your reasons for thinking so.

Mr. Hallock. I am giving you my reason. It is this, that even if you forbid the reserve bank to receive these checks on deposit the members of that bank will put them into the bank in spite of all you can do.

The Chairman. That is a good suggestion. I think that is so, too.

Mr. Hallock. I know it is so, and it is going to have this effect: It is going to increase the credits in those reserve banks to a degree you have no conception of at all.

The Chairman. Why? Tell us about that.

Mr. Hallock. Why? Well, I may have to give you a few facts.

The Chairman. Give us the facts.

Mr. Hallock. In England, where they clear out-of-town checks in London, they do not collect those checks as cash. They take them merely as collection items. After the checks are paid by the country bank to which they are sent by its clearing agent in London and the agent has received from the country bank a letter of advice to debit it with that amount, less certain checks which have not been paid but sent across the country, back to the banks that sent them to London originally; then, and not till then, the checks are paid through the London clearing house.

We do the business different. A Boston bank will take a piece of paper on San Francisco, with a face value of $10,000, as a deposit of $10,000, and then get the money for it after days and days. And so it is all over the country.

The Chairman. And they list that among their current exchanges, do they not?

Mr. Hallock. Absolutely, as a deposit.

The Chairman. And then they know it is a credit on the exchange?

Mr. Hallock. Yes; and they send it out for collection. That is the method of doing business in this country. According to your bill that same method will be followed in the case of the new reserve bank. And let me tell you this about the proposed bank: You think you are going to establish 12 banks, but you are not——

The Chairman (interposing). We are not?

Mr. Hallock. No, sir; you are not. You are going to establish one bank. It does not matter what you call it; it is one bank. I know what I am talking about. All you can establish is one bank, divide it up as much as you please. So I will call it one for the sake of illustration, because we are talking, in a general way, more or less poetically. [Laughter.] Let us assume that 25,000 banks become members of that central bank. Now, can any of you conceive of a better method of collecting checks on the myriads of members than by turning those checks in for credit to the bank or its branches? Why, it would be impossible to find anything better than that.

But suppose that the reserve bank credits those out-of-town checks as deposits. So far as the checks are payable in the region where deposited they will balance one another very quickly. That is admirable so far as the local arrangement is concerned, but those checks that are payable in other regions will have to be handled through

other regional banks or branches in some way. Therefore there will be lapses of time when these credits will be carried on the books and accumulate as real deposits of money. The result is that the deposits in that central bank will surprise you by their size. You have no conception of that.

And, if you will permit me, there is another point I should like to speak of, which has been presented in a way at variance with the facts, as you will see when you come to examine them later and ascertain just what they are. It has been stated that if a country bank deposits 5 per cent of its net deposits in the bank as a reserve it can borrow back two-thirds of that money. There is a misapprehension here. Let us put it this way: Suppose a bank wants a rediscount from that central bank. All it has to do is to obtain, if its net deposits are $100,000, $5,000 to deposit in that bank. Suppose it gets from its correspondent or takes from its own vaults $5,000 in gold certificates. It deposits that with the central bank. Now, the central bank can rediscount to an amount of more than two-thirds of that; they can rediscount to the extent of three times that. Instead of returning two-thirds of $5,000—or make it $6,000, two-thirds of which would be $4,000—instead of that it can rediscount $18,000. So, I tell you, this is a big plan you are pressing for adoption; you have no idea how big it is.

Senator CRAWFORD. Do you call that dangerous?

Mr. HALLOCK. Many people talk about inflation. One of the biggest inflations in this country is in our population.

Senator CRAWFORD. Then you do not consider this a vice in the bill?

Mr. HALLOCK. I do not. But I want you to realize what you are building up. According to banking methods it will take a form that you have very little idea of at present. And, by the way, I will illustrate that——

The CHAIRMAN (interposing). You spoke of a deposit of $5,000 affording a basis of credit of a much larger amount. How do you figure that out?

Mr. HALLOCK. Because a reserve—for instance, a reserve of one-third—allows you to issue three times that amount. That is the whole principle.

Senator CRAWFORD. How do you make that out?

Mr. HALLOCK. That is the fact.

The CHAIRMAN. You can issue notes?

Mr. HALLOCK. Any form of discount you want. You understand some of the bankers told you they did not need notes very much; they wanted rediscounts but not notes.

The CHAIRMAN. Your explanation is that it is a fact, and that ends it. It may be a fact, but if you know any reason why it is a fact I would like to have you give it.

Mr. HALLOCK. I can give it to you. In New York the reserve is 25 per cent. Now, that pays——

The CHAIRMAN (interposing). In other words, they can lend three-fourths of that sum and then deposit that three-fourths and lend out three-fourths of three-fourths, and then lend out three-fourths of the remainder——

Mr. HALLOCK (interposing). I can not follow that.

The CHAIRMAN. That is a correct diagnosis of it.

Senator CRAWFORD. Mr. Forgan said that under the present system $1 actual assets at the foundation was the basis for the expansion of $8 in credit.

Mr. HALLOCK. Taking the average——

The CHAIRMAN (interposing). And that is substantially true. but it involves only the capital.

Mr. HALLOCK. That, in general, is so.

The CHAIRMAN. The statement I made is the correct reason why that would be true in the New York banks. If they deposited $100,000 in gold, the bank being required to keep 25 per cent of that, would be able to lend out $75,000 of that money——

Mr. HALLOCK (interposing). Oh, no; $100,000.

The CHAIRMAN. I am speaking of the deposit.

Mr. HALLOCK. They do not lend out that money necessarily.

The CHAIRMAN. Just hold on a minute. I will state this matter correctly. A deposit is made of $100,000 in gold. Against that $100,000 in gold the bank is obliged to retain $25,000 as a reserve. That is true, is it not?

Mr. HALLOCK. So far as that is stated in that particular way.

The CHAIRMAN. Then the $75,000 in gold that is loaned out to Tom, Dick, and Harry on their notes flows right back into the banks as gold or is redeposited as gold; and of that $75,000 which flows back into the bank as gold the bank may lend three-fourths of $75,000, retaining one-fourth in gold against that $75,000. And so, by a series of loans and deposits and loans and deposits it finally figures down that you can lend three or four times as much as the original deposit of gold. Therefore it results in a credit expansion of three or four times the amount of the original deposit in gold.

You are applying that same argument to the regional reserve bank, but it is a very different question with the regional reserve bank, because when this gold is withdrawn from the regional reserve bank, if it is withdrawn, it will then go into some country district where it will not quickly flow back into the regional reserve bank. And I doubt whether the argument would apply with equal force as it does apply in New York where the loans are made in large measure in the city itself, which results in their immediately flowing back into the channels of the bank's deposits.

That is the reason why I asked you for your reason. I wanted to see what your reason was, and you replied it was a fact. I wanted to get your reason for its being a fact, and therefore I broke in upon you to explain what the system was in central reserve cities.

Mr. HALLOCK. But, Senator, you assume that the rediscount would be paid in gold in that case.

The CHAIRMAN. Yes. You think it may not be?

Mr. HALLOCK. I know. Only in exceptional cases will the gold be used at all. It will be used just as you provide in the bill——

The CHAIRMAN (interposing). You think they simply take a credit at the bank?

Mr. HALLOCK. Of course, just as it was in the case of the Baring failure, in London, to the extent of £11,000,000. They do not want the gold; it is expensive to handle——

The CHAIRMAN (interposing). Then they make deposits, do they not?

Mr. HALLOCK. To an extent you can not conceive of.

The CHAIRMAN. They will deposit this credit immediately to their own credit with this bank. They have a credit to their account. Then they have to keep one-third against that credit——

Mr. HALLOCK (interposing). That is better than gold, sir.

The CHAIRMAN. That may be, but that is not in point. The result is that the bank can do the very thing which I have described as taking place in New York by retaining one-third and lending it out again.

Mr. HALLOCK. Oh; yes, sir.

The CHAIRMAN. All right. Now, the reason has been given?

Mr. HALLOCK. Oh, yes.

Now, I want to explain one thing. In the earlier part of my remarks I spoke of—at least, I started to——

The CHAIRMAN (interposing). You were going to tell us something about this bill. There was some defect you wanted to point out to us; and I should like for you to do it, because this bill is here subject to bombardment, and if you can punch a hole in it, I should be glad for you to do it at once.

Mr. HALLOCK. I do not want to punch a hole in it.

The CHAIRMAN. I am using that as a figure of speech. I speak of it as a battleship undergoing the assaults of an enemy, and we are trying to find the weak spots in it and to correct them if we can.

Mr. HALLOCK. I have not stated all the points I wanted to bring you to the conception of the possibility of an agreement inside of a week upon a measure that will satisfy the whole country.

The CHAIRMAN. What is that measure?

Mr. HALLOCK. That is what I am coming to.

The CHAIRMAN. Give it.

Mr. HALLOCK. As I say, it is a synthesis of those things you have already agreed to at this table.

The CHAIRMAN. What are they?

Mr. HALLOCK. Of course, in selecting such points I must leave out those things in which you disagree. You must understand that. Therefore the number is comparatively small, but of great importance.

The CHAIRMAN. All right; give them.

Mr. HALLOCK. And I showed you that my father and myself have done the same thing in bringing the banks together——

The CHAIRMAN (interposing). Give us these points, Mr. Hallock.

Mr. HALLOCK. Yes; I will give them to you, but I want you to understand the importance of them. You may think it is such a little bit of a thing that it is not enough.

The CHAIRMAN. I wish you would give us these points; otherwise you may not have an opportunity to do it, because this committee is likely to adjourn and leave you without an opportunity to say what you have to say.

Mr. HALLOCK. The first thing you are practically agreed upon is to protect the 2 per cent bonds. You propose in the bill something that I never supposed a Democratic Party would agree to. Understand, I have studied these things all my life. I never supposed that the Democracy——

The CHAIRMAN (interposing). Oh, confine yourself to the point, Mr. Hallock, if you please.

Mr. HALLOCK. But it is proposed in this bill to substitute a 3 per cent bond for a 2 per cent bond.

The CHAIRMAN. Yes.

Mr. HALLOCK. Banks hold 2 per cent bonds, and you propose to give them a 3 per cent bond—to pay extra. The bankers will laugh at you if you do it. Of course they will. The idea, when you have got bonds out at 2 per cent, that you are going to give them bonds at 3 per cent. That is something they do not expect you to do if you look after the interests of other people.

The CHAIRMAN. Do you think that is right or not?

Mr. HALLOCK. I think it is wrong.

The CHAIRMAN. I am glad to hear you say so.

Mr. HALLOCK. Absolutely wrong. And let us be just to the bankers; I have nothing against them. The reason bankers want to have 3 per cent bonds put in place of 2s—and one banker suggested 3½ per cent—is to have a bond that will stay at par or above.

The CHAIRMAN. You said we were agreed upon a certain proposition.

Mr. HALLOCK. Yes; you have. I am coming to it.

The CHAIRMAN. I wish you would. I am very anxious to get it.

Mr. HALLOCK. I am showing you that it is foolish when you have a 2 per cent bond to give the man that holds it a 3 per cent bond.

The CHAIRMAN. You say we have agreed upon the wrong thing, then?

Mr. HALLOCK. In the bill, not at the table.

The CHAIRMAN. What have we agreed upon at the table?

Mr. HALLOCK. You have agreed to this, that the 2 per cents should be kept at par. It is in your own bill. What I am proposing is that you carry out the Owen bill with very slight modifications, and the Shafroth bill as to the other matter——

The CHAIRMAN (interposing). You think the committee has expressed an opinion that would be favorable to that adjustment, rather than the 3 per cent?

Mr. HALLOCK. Absolutely, you have—I do not mean every one of you.

The CHAIRMAN. I have great confidence that Senator Shafroth will come around to that opinion after a while.

Mr. HALLOCK. That is my first point. The Owen bill (S. 2898) says:

> The Secretary of the Treasury is further authorized in his discretion, when requested to do so by national banks having outstanding national-bank notes, secured by 2 per cent bonds, to purchase such bonds at par and accrued interest, and to assume the redemption at par of the bank notes secured by such bonds, charging the amount of such notes against the proceeds of such 2 per cent bonds and paying the balance in cash to such national bank. * * * When such national-bank notes, the redemption of which has been thus assumed, shall come into the Treasury of the United States, they shall be canceled and retired, and in lieu of such notes so canceled and retired the Secretary of the Treasury shall issue Treasury notes of the same amount.

Now, that measure, if it was carried out, would, of course, keep the twos at par. It would satisfy people that are now in great distress of mind to know what is to be the fate of those bonds, and if they are not obliged to turn them in, of course they will keep them. If they are obliged to turn them in they will get par.

The CHAIRMAN. You think that is all right?

Mr. HALLOCK. Absolutely. Look here, you are sensible men; is there any question about it?

The CHAIRMAN. That is what you think the committee can agree upon?

Mr. HALLOCK. You have agreed upon it, in my opinion. I have been present and I have watched you. There is no reason to stay here six months to settle that question. You can settle that in one week.

The CHAIRMAN. What is the next question you think the committee can agree upon?

Mr. HALLOCK. I have not finished with that. I like to put improvements upon things a little. If in addition to that you will simply repeal that provision of the national-bank act in section 5167, which says:

> Whenever the market or cash value of any bonds thus deposited with the Treasurer is reduced below the amount of the circulation issued for the same, the comptroller may demand and receive the amount of such depreciation in other United States bonds at cash value, or in money, from the association, to be deposited with the Treasurer as long as such depreciation continues.

Now, if you will simply supplement that measure with the repeal of that section, so that any bank that has 2 per cent bonds will not be subject to a call from the comptroller to put up more bonds, the relief will be complete.

The CHAIRMAN. I think you are quite right about that.

Mr. HALLOCK. If you will do that, it will be a perfect measure to keep the twos at par. You will have the thanks of the whole American people. I try to think I am speaking for the whole American people. And, by the way, about the American people——

The CHAIRMAN (interposing). Oh, no; now, we don't want to hear about the American people. [Laughter.]

Mr. HALLOCK. That is my very complaint. My complaint is that in the Glass bill you refuse to take the bare hand of the people. You trust your Federal reserve banks only to take the gloved hand of the banker.

The CHAIRMAN. You think the bank, then, ought to deal directly with the citizen?

Mr. HALLOCK. I am only speaking about your own bill; that is the point now.

The CHAIRMAN. I am asking you to tell us how to remedy this bill. You tell us we do not take hold of the bare hand of the people, and I am asking you if you think we ought to deal with the citizen directly.

Mr. HALLOCK. Do you?

The CHAIRMAN. Do you think so?

Mr. HALLOCK. His own funds are put into the bank.

The CHAIRMAN. What do you think ought to go into the bill? That is the question. Do you think the bank ought to deal directly with the public?

Mr. HALLOCK, Of course, in a reasonable kind of way. The Bank of England does it, the Bank of France does it, the Reichsbank does it.

The CHAIRMAN. So they do, all of them.

Senator CRAWFORD. You would amend this bill so that the reserve banks could do this with the public?

Mr. HALLOCK. Don't put it that way.

Senator CRAWFORD. Would you not amend——

Mr. HALLOCK. I am going to ask you to agree upon some simple measures, and that question I do not have to answer and do not want to, because it is out of my way.

The CHAIRMAN. All right; we will not compel you to answer a question which is so complicated.

Mr. HALLOCK. I simply want to tell you what has substantially been agreed upon by this committee.

Senator CRAWFORD. What have you on this point?

Senator McLEAN. Mr. Chairman, I think he should give us his suggestions.

Mr. HALLOCK. What did you say?

Mr. McLEAN. I was hoping you would give us some continuity of your views of what you feel should be the changes in this bill, or else supplement it with your ideas.

Mr. HALLOCK. I have given one important provision. There are two or three more.

The CHAIRMAN. Let us have them, because I will be obliged to leave you at 3 o'clock, and you have just 25 minutes more.

Senator McLEAN. You have gotten through with the bonds. What is the next point?

Mr. HALLOCK. The next point is this, and understand these suggestions were learned at your table. Here is a suggestion that you should issue currency on a 50 per cent gold reserve. Why not have a simple process, which is perfectly practicable, to take the gold certificates the moment the Government gets possession of them, and in that way obtains the ownership of the gold that is behind them, and to issue Treasury notes when necessary to pay, for instance, for the national-bank notes outstanding against these 2 per cent bonds when they are redeemed, for you become responsible for the currency, of course. You have got to pay for it in some way.

The CHAIRMAN. You mean to cancel the gold certificates and put the gold in the redemption division—to put the gold against it?

Mr. HALLOCK. Yes; to the extent of $2 to $1.

Senator McLEAN. We have discussed that, and you approve, as I understand?

Mr. HALLOCK. Yes; that is that point.

The CHAIRMAN. You approve of that. What is the next point?

Mr. HALLOCK. The only other point is that you shall permit the bankers, under proper directions, to establish their clearing houses so as to get the support of the clearing house as a guarantor of the proceedings with the Government when they want rediscounts, in order simply to hand out their paper and take over credit, if that is all they require, or, if they want actual currency, to have the Government issue it in the form of gold notes. There you have all that you need for the solution of the present question.

Senator CRAWFORD. Then you simply want to have them take currency or to take a book credit?

Mr. HALLOCK. At their pleasure.

Senator CRAWFORD. At their pleasure?

Mr. HALLOCK. Yes.

Senator CRAWFORD. While this requires them to take currency, you want them to——

Mr. HALLOCK. Oh, no; it don't require them to take currency.

Senator CRAWFORD (continuing). Just allow credit?

Mr. HALLOCK. It don't matter. It can be either way as the banks choose.

Senator SHAFROTH. It can leave it as a deposit, if it wants to?

Mr. HALLOCK. Certainly; it permits that.

Senator CRAWFORD. You want to disagree with the bill in that respect?

Mr. HALLOCK. I don't think it is necessary just now to establish banks.

The CHAIRMAN. You do not think it is necessary to establish banks?

Mr. HALLOCK. As an agent of the Government.

The CHAIRMAN. You do not want any reserve banks?

Mr. HALLOCK. Well, that is a detail.

The CHAIRMAN. Are you in favor of it or against it?

Mr. HALLOCK. That is for you to settle one way or the other. It is a detail. I do not care.

Senator CRAWFORD. It is in the bill. Would you strike it out?

Mr. HALLOCK. Not strike it out in the sense of abandoning it altogether. What I ask you is to agree on these few things and to pass that measure and go home and take a vacation, which I think you all need, and then if you want to take up the evolution of a great banking scheme, you ought to devote months to do that.

Senator MCLEAN. What is your next point?

Mr. HALLOCK. I am through, with this exception—there is only one thing left, and that is this: Gov. Shafroth's proposition would make a large increase in the legal tender paper money of this country. Now, that is something——

Senator SHAFROTH (interposing). You mean to take up the national-bank notes by it. That is the only increase.

Mr. HALLOCK. Yes. That, you know—I do not know whether you propose the rediscounting feature or not, but, of course, you would not object to that.

Senator SHAFROTH. I have not proposed the rediscounting feature.

Mr. HALLOCK. No; but the proposition is to increase the legal-tender issue. Now, on that, of course, this committee is not agreed; therefore I drop that and select something else. I then propose to take from your bill this feature that you have here—that notes shall be made receivable for all taxes, customs, and for other public dues. You can all agree to that, every one of you, and then you have no increase of the legal-tender paper money.

Senator CRAWFORD. That virtually makes them legal-tender paper.

Mr. HALLOCK. It makes them virtually legal tender, true. But as far as increasing legal-tender paper money is concerned, you can not agree, and I certainly would not agree to it, either. That the notes should be made legal tender is absolutely unnecessary. There are very few uses for a legal tender. Occasionally a lawyer has a contract in which he has to make a tender of money. He then has to be careful under such a contract to tender actual legal-tender money in some form. He then may use gold coin, silver dollars, or legal-tender notes. I am speaking practically. For this only real use of legal tenders you may leave the present issue of United States notes at $346,000,000, as it is, and then you have the gold or the silver

dollars, which will supply the people with all the circulation required for actual tenders of lawful money.

Senator SHAFROTH. What objection is there to making currency a legal tender?

Mr. HALLOCK. Well, sir, you have the objection of the great masses of the people in New York and about there. As a rule, a great many there are opposed to it.

The CHAIRMAN. Have not they got some mental obsession on that question?

Mr. HALLOCK. I personally concede the propriety of issuing Government paper money, but can not agree with Gov. Shafroth that it ought to be legal tender.

Senator CRAWFORD. Even then it is not money; it is currency; it is not money.

Mr. HALLOCK. Put it that way, if you like.

These are all the propositions that I have to make, and, put together, they would enable you to frame a measure that the whole country would approve.

The CHAIRMAN. If that is all you have, and the committee have no questions to ask, we will adjourn at this time.

Mr. HALLOCK. In conclusion permit me to add that, though it may not be generally known or acknowledged, the establishment of a central bank in the United States under Government control is an accomplished fact. No new law is required to have one. It already operates under provisions of existing law as construed by the Treasury Department. Under the present administration, during this first session of the Sixty-third Congress, this Government bank has for the first time rediscounted commercial paper for banks. The authority of law for doing so in the manner adopted is not disputed.

The Treasury Department, directed by the Secretary of the Treasury, is our Government bank. That some of the banking powers exercised by it are strictly according to law is unquestioned; for instance, the issue of circulating notes (gold certificates) upon deposits of gold, the issue of certain circulating notes in an emergency upon deposits of commercial paper and other securities (act of May 30, 1908), the redemption of United States notes in gold coin and the maintenance of a gold reserve for this purpose.

The five points of financial legislation suggested by me for enactment without delay at this special session conform closely to the authorized practice of the Treasury Department:

(1) The issue of $10 in gold certificates upon any $5 of gold (129 grains of standard gold) that are in or come into the ownership of the United States would provide a 50 per cent reserve in gold against such certificates, all of which certificates would be redeemable on demand in gold at par dollar for dollar.

(2) Such issues of gold certificates on a 50 per cent reserve would obviously make practicable the purchase or redemption of the 2 per cent bonds at their face value by the Government whenever requested by national banks that had national-bank notes outstanding and secured by such bonds.

(3) The market price of these 2 per cent bonds would probably go to and stay at par if Congress withdrew from the Comptroller of the Currency his discretionary power to require additional deposits of bonds or lawful money in case the market value of the 2 per cents

fell below the par value of the circulating notes for which they were deposited as security.

(4) The issue of gold certificates on a 50 per cent reserve would enable the Secretary of the Treasury, if duly authorized by law as proposed, to meet an emergency by making rediscounts to national currency associations or banks upon commercial paper and other securities and by paying the credits given in issues of such gold certificates, if desired, or by furnishing exchange upon almost any point in the United States, if that were preferred.

(5) The present gold certificates, silver certificates, and national-bank notes are not a legal tender in payment of private debts; and the new form of gold certificates proposed should not be a legal tender, though receivable for all taxes, customs, and other public dues.

It is only fair that, having criticized the conduct of the clearing-house committee in 1907, I should indicate what, in my judgment, the New York Clearing House should have done to prevent the panic of that year. Fourteen months before the panic I published in Moody's Magazine for August, 1906, an article entitled, "Thoughts on Clearing Houses," and there laid down this rule of prevention which, if followed, would with mathematical certainty have entirely averted the panic of 1907, to wit:

THE LESSON OF THE PANIC OF 1893.

To show how unity of action saves and disunity destroys, take as a concrete example what was done in 1893, when the National Bank of Deposit applied to the New York Clearing House for assistance. Help was refused. The bank failed. The receiver appointed June 9, 1893, finally closed its affairs June 15, 1894, after paying depositors 100 cents on the dollar with interest. In that year the clearing house helped many of its members by rediscounting bills receivable and securities for them and giving them clearing-house loan certificates in payment. The clearing house could have safely rediscounted the bills receivable and securities of the National Bank of Deposit, or taken over its assets and, guaranteeing its deposits, placed them in another New York bank without depriving depositors or correspondents of their use for a single day. In 1893 every bank or business man that failed with more good assets than debts could have been saved by banks through clearing houses. With such banks and dealers preserved from failure, there could have been no panic.

Six months after the panic of 1907, being in Washington while Congress was contemplating legislation to prevent the recurrence of such an evil, I endeavored to devise a plan by which Congress could compel the New York banks to act toward one another in such a considerate manner that no panic would ever result. My proposal was published in the newspapers of Washington, D. C., and is fully set forth in the folowing articles:

[From the Washington Herald of Apr. 26, 1908.]

J. C. Hallock Would Prevent Financial Assassination—Recent Troubles Avoidable—Suggests Legislation to Compel Banks of Central Reserve Cities to Accept Checks on Other Banks of Same Municipality, Even if in Financial Difficulties at the Time.

James C. Hallock, of Brooklyn, N. Y., whose father originated the clearing house in America, and who has himself studied the subject of clearing houses for many years, said yesterday in an interview with a representative of The Washington Herald:

"Thirty-two thousand depositors in Brooklyn, probably 100,000 in Greater New York, had accounts in failed banks last winter.

"Millions of citizens throughout the Union have come to distrust Wall Street as a stewpot of panics, which boils over unexpectedly. The American people would rejoice to see Congress enact a law which would protect the country against financial disturbance from that quarter.

FAVORS LEGISLATIVE ACTION.

"Possibly a few men in New York would scream as if they were to be killed. But even in battle many more than are killed think they are going to be. However, it is true, I wish our Representatives would rise as one man and render harmless some New York bankers, who could be crushed as easily as a spider.

"Understand that the principal banks in the city belong to a union; yet they let one of their number suspend and deserted five, forcing four to fail, so that for months there have been closed banks on whose dusty windows the passing throng have been reading a shameless advertisement of desertion in the soiled letters, 'Member of the New York Clearing House.'

"Can not even its members be trusted? Now, though these broken banks suffered losses which their shareholders have had to bear, every one of the six will resume or pay depositors in full.

"Their funds would have far exceeded their liabilities to depositors, if a little time had been allowed them to realize on their assets.

BANKING IN NEW YORK SAFE.

"Banking in New York is conducted much more safely than people suppose. Not since the Marine National Bank failed, in 1884, with a net loss to depositors of $765,800, has a dollar been lost by depositors of failed national banks in the city of New York. The only other net loss that ever occurred was $25,612 by the failure of the Croton National Bank, in 1867; that is to say, less than $800,000 in 45 years of national banking, an average of less than $18,000 a year, with no net loss at all for the past 24 years.

"St. Louis has had only one net loss from the failure of a national bank, $38,428, in 1887, an annual average of less than $860, with no net loss at all for over 20 years. Chicago has had four small net losses, aggregating $462,453, since 1875, an average of only $14,000 annually for the past 30 years, with no net loss since 1893.

"In short, the national banks of New York are so absolutely safe that they could guarantee each other's deposits without practically any risk. When the runs occurred on the Mercantile National Bank, First National Bank of Brooklyn, National Bank of North America, and New Amsterdam National Bank all the other national banks in the city could without peril have offered to receive checks on them for deposit.

WHAT EXISTING LAW REQUIRES.

"National banks are required by law to receive at par any and all notes or bills issued by other national banks. Congress, under its constitutional power to promote the general welfare, should also compel the national banks of New York to accept checks on any of their number.

"There can be no question that it would promote the general welfare. History shows that in this country no great panic has started anywhere but in New York, and there could not be one if at all times checks on every national bank there were accepted by all.

"Bank notes are always received, though the bank that issued them may have failed. So, in New York, checks on national banks should be received by national banks though the banks drawn on were good or bad, open or closed. National banks have lost nothing by receiving at par national-bank notes. And the national banks of New York would lose nothing in the end by receiving checks on other national banks in the city under all circumstances.

BANK ASSASSINATIONS.

"Investigation would show that more than one of the closed banks in New York were assassinated by other banks there. The offense of bank assassination is criminal in its nature. To protect depositors against the effects of bank assassination, the criminal character of refusals to accept checks on other national banks of New York should be recognized in the law of the land.

"To refuse checks drawn on a New York bank which, though temporarily embarrassed, has sufficient funds to meet them by any process of liquidation is a form of malicious mischief which, if it results in closing the bank, may annoy and injure thousands of citizens, with their wives, children, parents, and creditors.

"In New York it is the old story of Cain. 'Where is thy brother?' And he answered, 'I know not. Am I my brother's keeper?' Then the Lord said, 'What hast thou done? The voice of thy brother's blood crieth to me from the earth.'

MUTUAL CONCERN IN NEW YORK.

"The New York banks assert the right to be their brother's keeper. Ever since June 4, 1884, in the month following the failure of the Marine National Bank, the clearing-house committee has been empowered, whenever it considered it for the interest of the association, to examine any bank member of the association and to require from any member securities of such an amount and character as the committee might deem sufficient for the protection of the balances resulting from the exchanges of the clearing house.

"Since 1890 every nonmember bank or institution clearing through a member has had to submit to the same examinations as are required of members.

WHAT METHODS UNCOVER.

"Under these conditions, the clearing-house committee can always know whether a bank is solvent or insolvent and take measures to close it up before more than the amount of its capital and surplus is lost or dissipated. The committee could give public notice in the newspapers that checks drawn against funds already in the bank would be received by the national banks in the clearing house, but none would be received when drawn on deposits thereafter made.

"This would fully protect depositors, protect the other national banks of New York, and put an end to the business of the offending bank.

"What objection could any Member of Congress from any district outside or inside of New York have to requiring the national banks of that city to receive checks on every national bank of New York, whether it were sound, temporarily embarrassed, or even closed and in process of liquidation?

"It is not pretended that Congress could constitutionally single out New York and apply the law only to banks there. To be constitutional the law must apply to all central reserve cities; that is, to Chicago and St. Louis as well as New York. Any of them could escape the operation of the law by ceasing to be a central reserve city.

"If the national banks of New York, with their intimate knowledge of each other's condition, were afraid to be responsible for all checks and drafts of depositors and correspondents properly drawn on them Congress should, as it would by the passage of this law, compel them to acknowledge before the whole country their want of confidence in themselves and thus warn the public.

"As a matter of fact, there are no safer banks in the world than in New York, Chicago, and St. Louis. And this law would only give universal publicity to that fact."

[From the Evening Star of May 8, 1908.]

PLAN TO SAVE BANKS—J. C. HALLOCK HAS NEW METHOD TO PROPOSE TO CONGRESS—USEFUL IN TIMES OF PANIC—SUGGESTS LEGISLATION AFFECTING CENTRAL RESERVE CITIES—SOLVES A FINANCIAL PROBLEM—WOULD MAKE IT COMPULSORY UPON NATIONAL BANKS TO ACCEPT CHECKS FROM OTHER INSTITUTIONS.

Runs on national banks and the financial difficulties attendant thereon can be prevented, according to J. C. Hallock, of Brooklyn, N. Y., if Congress will lend a helping hand. Mr. Hallock is here to present his views to the lawmakers and to describe in detail his plan to guard against financial troubles in the great cities. Mr. Hallock's father originated the clearing-house system in America.

PROGRESS IN LEGISLATION.

"The complaint throughout the Union that national banks of New York refused last fall to furnish currency for needs of interior banks," said Mr. Hallock to a Star reporter, "has been heard by the Republican caucus and a

bill recommended that would enable national banks in central reserve and reserve cities to obtain all the currency they required to supply the needs of interior banks. This would be progress in financial legislation.

"But will Congress turn a deaf ear to another crying evil of the times? The country has unnecessarily suffered from the suspension of banks that have sufficient assets to pay depositors in full. For years past all national banks in New York, Chicago, and St. Louis have had such a sufficiency of assets and been so safely managed that the national banks of these three central reserve cities would not lose a dollar if Congress compelled every national bank of New York to accept checks on all the other national banks of that city, every national bank of Chicago to accept Chicago checks, and every national bank of St. Louis to accept St. Louis checks, whether the national banks drawn on were open or closed. This would protect all their depositors and correspondents everywhere.

"A bold proposition! But no more or less bold than the resolve of the Republican Party in 1861 to save the Union. There are only 37 national banks in New York, 14 in Chicago, and 8 in St. Louis. They are in position to protect themselves against loss, if made responsible for all legitimate claims of depositors and correspondents on themselves. Experience during the past fall and winter has shown the necessity and justice of making them responsible.

"The chief characteristic of the late panic was distrust of New York banks. Would there have been any panic to speak of, if there had been no runs on the Mercantile National Bank, on the Knickerbocker Trust Co., on the Trust Co. of America, on the Lincoln Trust Co., on the Brooklyn banks? Without those runs, would interior banks have been frightened?

THE SOURCE OF TROUBLE.

"All the trouble came from those runs. Could they not have been prevented? Surely they could. For example, during the last week of January New York concocted runs on four members of the clearing house, which resulted in closing the National Bank of North America Monday, the 27th; New Amsterdam National Bank Wednesday, the 29th; Mechanics & Traders' Bank Thursday, the 30th; Oriental Bank Friday, the 31st; and the Home Bank of Brooklyn February 1. There is a way to prevent such runs. The New York banks should have done for their associates what the Canadian banks did for the Sovereign Bank of Canada, which went out of existence without closing its doors. That trick of closing up a failed bank without closing its doors is worth knowing.

"The Sovereign Bank was a large institution, with many branches and $14,000,000 of deposits. On Saturday, January 18, 1908, its president publicly announced that an agreement had been made with a number of banks by which nearly all the branches of the bank would open that morning as branches of other banks; that this arrangement would entail no loss of any kind to the bank's depositors or customers; that they could withdraw their deposits if they pleased or they could allow them to remain with the bank to which they had been transferred; that the Sovereign Bank of Canada pass books would be surrendered and pass books of the new banks obtained, but that borrowing customers would, of course, have to make other banking arrangements as soon as possible.

"The passing of the Sovereign Bank was accomplished without even a ripple of excitement in the market. An American visiting Toronto at the time said:

"'Why, if this were New York or Chicago there would be a line of people halfway up the street crowding and fighting for position, and not only that, but there would be crowds in front of all the other banks. I don't know how you do it.'

DIVIDED THE ACCOUNTS.

"The bank and all of its branches opened as usual on that Saturday morning, and a few depositors withdrew their savings, but the transaction of business went on very much as usual. Every depositor who did not wish to withdraw his savings was given another book issued by the bank that had taken over that particular branch. It is interesting to note how the bank was partitioned among the 13 banks that guaranteed the deposits and took over the branches. The head office and Market Street branch in Toronto were taken over by the Canadian Bank of Commerce, while the business of the two offices was apportioned among seven banks. The Toronto offices were kept open for a month or

so. until the business could be wound up, but then closed. The savings accounts were divided as follows: Nos. 1 to 1299, to the Merchants' Bank; 1300 to 2899, to the Dominion Bank; 2900 to 3599, to the Bank of Nova Scotia; and 3600 and on to the Bank of Toronto. For the accunts f custmers outside of Toronto the following arrangements were made: The Dominion Bank took over 7 branches; Standard Bank, 8; Bank of Hamilton, 6; Bank of British North America, 2; Merchants' Bank, 2; Imperial Bank, 8; Bank of Nova Scotia, 3; Bank of Toronto, 5; Bank of Ottawa, 3; Royal Bank of Canada, 6; Bank of Montreal, 10; and Canadian Bank of Commerce, 16. Later a few of the 76 branches were redistributed and taken over by the Eastern Townships' Bank.

"What was there to prevent closing the National Bank of North America at New York in that manner? Its deposits had been reduced to $3,500,000 by previous withdrawals. Divided among a dozen banks in New York the deposits would not have amounted to $300,000 for each bank. Those deposits will sooner or later be paid in full, principal and interest. The New York banks would incur no more risk in taking them over than the Canadian banks did in guaranteeing and taking over the deposits of the Sovereign Bank.

"The National Bank of North America, established in 1851, was one of the banks that organized the New York Clearing House in 1853. In the fifty-fifth year of its membership, stricken unto death, it resigned from the association to expire the next day without arrangements for decent burial.

"The Mechanics & Traders' Bank, established in 1830, and the Oriental Bank, established in 1853, have also been members of the New York Clearing House since its organization. The former had 2 branches in Manhattan and 10 in Brooklyn; the latter a branch in the Bowery. The suspension of the Mechanics & Traders' Bank compelled the Home Bank of Brooklyn, which cleared through it, to close its doors. All these banks and the New Amsterdam National Bank will pay depositors in full. Why should these 18 banking offices have closed in one week and left 18 groups of depositors temporarily without the use of their money?

"We have seen how in Canada nearly 80 officers of a failed bank, instead of being closed, were kept open as offices of other banks. Can not the same be done in the United States?

WHAT COULD HAVE BEEN DONE.

"Take the Mercantile National Bank of New York. The clearing house determined to get Morse and Heinze out of that bank. The clearing-house committee could have quietly told those gentlemen that unless they retired the committee would suspend the bank and recommend to the association its expulsion from membership, with a joint guaranty of its legitimate deposits and an offer to depositors to accept their checks for credit, and, if desired, payment at any bank in the clearing house or at a number of designated banks. That would have ousted Morse and Heinze, protected the depositors, and caused no distrust in New York banks. The clearing-house committee alarmed the country by suddenly announcing one day that the Mercantile National Bank would be supported by the association for only 24 hours longer.

"There was the Knickerbocker Trust Co. The Clearing House Association might have informed the public that checks on that company would be accepted for deposit by every member or by certain ones. Nobody, no bank, in town or out, would have lost by that, and all distrust engendered by that failure would have been avoided. The Knickerbocker Trust Co., Trust Company of America, and other institutions should have been reorganized without loss or inconvenience to depositors and without creating the impression throughout the country that the New York banks were rotten, which they are not.

"Nobody but the banks themselves are responsible for any run on any bank in New York or Brooklyn. And if there had been no bank runs, how much of a panic would there have been in 1907? None at all.

"On the night before its suspension the president of the Mechanics & Traders' Bank gave out a statement, in which he said:

"'The clearing-house committee informed the officers of this bank at 5 o'clock this afternoon that the clearing house had determined to afford no further assistance to any bank.'

"Congress should compel the New York banks to stand together for mutual protection against runs and bank suspensions that cause inconvenience or loss to their depositors and correspondents throughout the country. Investiga-

tion reveals the power of Congress to protect the American people in this matter.

"New York bankers are somewhat like the little children in England who went to a penny show last winter. When the gallery was filled, those on the stairs were turned back. At a sharp turn in the stairs they met others coming up. There was first a crush and then a panic in which 16 children were killed. New York banks have been colliding and crushing one another. Congress can make them stop that. If before turning the children back some one had stopped those coming up, there would have been no fatalities at the show. If Congress makes the national banks of New York accept checks on other national banks of that city there will never be any more trouble there."

The cause of the panic in 1907 was the elimination of Heinze, Morse, and Thomas from banking organizations of New York City by the clearing-house committee, Sunday, October 20, as chronicled in the New York dailies and Washington Post of the following day, as follows:

[The Journal of Commerce and Commercial Bulletin, Monday, Oct. 21, 1907, p. 1.]

$10,000,000 PLEDGED TO SAVE BANKS—SUNDAY MEETING OF BANK OFFICERS AT CLEARING HOUSE.

BELIEVE THEIR ACTION WILL PREVENT WITHDRAWALS OF DEPOSITS FROM BANKS UNDER CRITICISM—MORSE RETIRES FROM ALL HIS CHAIN OF BANKS—PRESIDENT CURTIS, OF THE BANK OF NORTH AMERICA, RETIRES IN FAVOR OF WILLIAM F. HAVEMEYER—CULMINATION OF THE MOVEMENT TO BUY UP BANKS TO SECURE THEIR LOANING FACILITIES.

Yesterday—a Sunday—was a history-making day in banking circles of New York.

The principal developments may be summarized under the following heads:

First. One of the largest and most representative meetings of bank presidents was held at the New York Clearing House.

Second. A total fund of $10,000,000 was pledged by a score of individual banks to extend aid to banks and render such assistance to meet their deposits as the clearing-house committee may think necessary.

Third. Mr. William F. Havemeyer was elected president of the National Bank of North America in place of Mr. Alfred H. Curtis, who succeeds Charles W. Morse as vice president.

Fourth. Election of Seth M. Milliken to succeed F. Augustus Heinze as president of the Mercantile National Bank, and William Skinner and Gerish H. Milliken as additional vice presidents.

And to those may be added what was really a Saturday development, namely:

Fifth. The announcement by Charles W. Morse of his withdrawal from any voice in the management of any banks he has purchased into.

DEVELOPMENTS ALL CENTER AROUND THE CULMINATION OF PYRAMID BANKING.

These important developments all center around a single point, namely, the culmination of the policy that has been an unfortunate development of the last decade, that of buying the control of a bank, then putting up the stock representing that control as collateral for funds to buy control of another bank, and continuing the process with banks and trust companies so that the final result is a pyramid controlling "chains" of financial institutions, the funds of whose depositors thus become available, in the form of loans for the private or company enterprises of the shrewd manipulators. There is no denying that the crisis that the clearing-house banks have come together to avert has been a serious one: but the clearing house officials are positive they will be successful and will at the same time succeed in crushing out an evil that they have been powerless to deal with until now. But now that the opportunity has presented itself they will, it is no overstatement to say, make the cure a complete one. Thus far they have been called upon to deal with Heinze and Morse, but it is understood that several other financial institutions of comparatively small importance are under consideration, and the clearing house

will render no aid to any institution dominated by other than banking interests until a complete withdrawal has taken place of the objectionable domination.

CLEARING-HOUSE COMMITTEE AT WORK ALL SATURDAY NIGHT.

The clearing-house committee was at work all Saturday night examining banks under criticism, and it is when they had explained the situation to the large meeting of bank presidents at the clearing house yesterday, they were a practically fagged out company of men. President James T. Woodward, of the Hanover National Bank, who is chairman of the clearing-house committee, had returned from Maryland for the purpose of presiding. Among those present were J. Edward Simmons, president of the Fourth National Bank; James Stillman, president of the National City Bank; William A. Nash, president of the Corn Exchange Bank; Dumont Clarke, president of the American Exchange National Bank; Edward Townsend, president of the Importers & Traders National Bank; A. Barton Hepburn, president of the Chase National Bank; George F. Baker, president of the First National Bank; James F. Cannon, vice-president of the Fourth National Bank; Samuel Wolverton, president of the Gallatin National Bank; Alexander Gilbert, president of the Market & Fulton National Bank; Richard Delefield, president of the Park National Bank; Robert M. Galloway, president of the Merchants National Bank, and, in fact, the presidents of nearly all the large banks of the city.

The meeting began promptly at 10 o'clock and did not adjourn until nearly 2 o'clock, when the following official summary of the meeting was prepared for publication and was also cabled to press associations abroad for publication there.

A committee of the New York clearing house to-day issued a statement declaring that after having made an examination of the several banks of the association that have been under criticism they have found the banks solvent and have decided to render them assistance if necessary. The statement follows:

"A committee of the clearing house has examined the several banks of the association that have been under criticism and find them solvent. The clearing-house committee have decided to render them such assistance to meet their deposits as the committee may think necessary."

As already noted, Mr. Woodward presided, and the reports of the committee who had been examining the various institutions was fully discussed. They found that the National Bank of North America's capital was fully intact; that the Mercantile Bank was in a position where they could assist it, and that the Bank of New Amsterdam was in a solvent condition. It was decided that all three institutions should be given what aid the clearing-house committee thought necessary, on condition that the institutions should eliminate from their boards and from their control the element that had brought their banks to the condition in which they are now, and, to quote a clearing-house member, "Clean house and make themselves respectable." Under such conditions the meeting decided that the clearing-house bankers would "go behind the banks in question and take care of them."

TEN MILLION DOLLARS PLEDGED TO HELP OUT THE BANKS.

The practical action taken by the meeting was to pledge a sum of $10,000,000 for the use of the committee on the lines laid down. This means that the institutions are going to be saved, and it was the belief at the meeting of bank presidents that the action taken would be sufficiently reassuring to the public to prevent any large withdrawal of deposits to-day and will relieve the entire situation.

[The Journal of Commerce and Commercial Bulletin, Tuesday, Oct. 22, 1907.]

THE BEGINNING OF BANK REFORM.

The clearing-house committee has rendered a most valuable service to the banking community by coming to the assistance of certain banks in the association which had been weakened by bad management and giving assurance that the interests of depositors would be made secure, but the most important part of that service lies in the condition upon which it was rendered. This condition was that the bad management should cease and the causes of it should be eliminated. As these causes have long been known, it is unfortunate, if

not discreditable, that action should be deferred until the evil results were fully developed and disastrous consequences were threatened. Earlier action might have been resisted and it might have lacked needed support, but if there had been sound sentiment and a high sense of integrity and prudence in the financial community the abuses that were sapping and weakening the banking system would never have been permitted to grow up, and the clearing house has always been in a position to prevent them by a vigorous assertion of its influence.

We have frequently condemned, before this acute situation was revealed by the failure of a speculative stock operation in which a prominent bank was involved, the practice of allowing regularly organized and supervised banking institutions to pass into the control of promoters, speculators, or great corporate concerns engaged in other business to be used to serve their purposes. That practice was a violation of sound banking principles and was sure to demoralize banking methods and lead to dangerous abuses, for it is the duty of a bank chartered by law and subject to public supervision to guard the interests of all its depositors and treat all its customers with equal fairness and consideration according to their just claims. The relation of directors and officers to them is one of trust and confidence, and they should not have personal interests in conflict with the obligations that such a relation entails. When promoters and financiers with schemes of their own to advance or large interests to serve in which they are personally concerned gain control of a bank or a "chain of banks" for the purpose of using them in their business, there is sure to be a departure from sound and safe banking methods and other interests are endangered. No countenance should be given to such control of banks by public authorities having any power to prevent it or by such an association as that of the New York Clearing House.

The case of F. Augustus Heinze and the Mercantile National was typical, though an extreme example. When Heinze obtained control he began to use the bank to promote his own purposes and advance the interests of himself and thos associated with him, as, considering his past career, it was to be expected that he would. The result is also what was to have been expected sooner or later, but there are other cases of the same kind, though less flagrant. The exploits of C. W. Morse in banking are typical in a different way. He was engaged in large schemes of promoting steamboat and water transportation enterprises and had use for banks. He instituted the plan, not altogether new, of controlling "chains of banks," more or less interdependent and cooperative, by buying a large interest in one, using its stock as security for raising funds to buy into another, and so on until the pyramid of control was complete. Banks so controlled or largely influenced in their management were sure to serve first the interests of those exercising the control or dominant influence, at the risk of sacrificing or imperilling those of other depositors, borrowers, and stockholders. Requiring a complete change in the direction of the Mercantile National Bank and impelling the withdrawal of "controlling interests" in others needing support as a condition of clearing-house assistance to restore them to confidence was a wise move on the part of the clearing-house committee.

But the process of banking reform ought not to stop there, though its effectiveness will depend less upon definite action than upon the influence of sound and vigorously asserted sentiment on the subject. Every effort should be exerted to put our banking upon a basis of sound principle and upright methods, and making it independent of all sinister influences which would make it subservient to special interests of any kind. The control and management of banks should not be entangled with that of corporate affairs in other lines of business, such as insurance, railroads, and industrial concerns, in a way to put them under obligation to serve these and to discriminate against others. This is an element of evil that has been working insidiously and is widespread. It is to be feared that its infection has gone far and deep in some of the strongest members of the clearing house association, but its ravages are most serious in a class of institutions that are outside of its jurisdiction. Lack of adequate regulation, supervision, and publicity has made of some trust companies the pliant tools of syndicates, promoters, and speculators until they have lost their original character and belied their name. In the system of banking institutions at this financial center there is much that needs reform, but the greatest need is a reform in sentiment and opinion, which shall elevate the standard and purify methods, making of banking the conservative power and directing force that rightly belongs to it, a tower of strength and a rock of defense for the business community.

[The Journal of Commerce and Commercial Bulletin, Wednesday, Oct. 23, 1907, p. 4.]

A TIME FOR KEEPING COOL.

Whether the derangement started by disclosures affecting the Mercantile Bank and the Knickerbocker Trust Co. is to spread into financial disaster depends much upon the temper of the public, as well as the spirit of the financial community. It is a time for keeping as cool and calm as possible and acting with prudence. Most of our financial institutions are undoubtedly sound and safe, and can do much to sustain the whole fabric of credit and carry it safely through if they are not harrassed by importunate and unreasonable demands. Nothing is worse than precipitate "runs," for no bank can be instantly prepared for these.

There should especially be abstention from exciting and disturbing comment. The voice of the President of the United States at such a time, if uttered at all, should be reassuring rather than irritating, and the remarks in his Nashville speech yesterday were most injudicious. It may be true, that the President's policies have had no material effect in bringing about the present trouble, but it is no time for harping upon that and reiterating threats of keeping up the effort to punish successful dishonesty." The press, too, should avoid aggravating the situation. It is a time just now for cool heads and calm speech and a prudent treatment of an acute situation.

[The New York Sun, Monday, Oct. 21, 1907, p. 1.]

FINDS ITS BANKS ARE SOLVENT—CLEARING HOUSE COMPLETES DRASTIC PURGING PROCESS—BOTH THOMASES RETIRED—ANY CLEARING-HOUSE BANK THAT MAY NEED CASH WILL GET IT NOW.

W. F. HAVEMEYER, PRESIDENT OF THE BANK OF NORTH AMERICA, AND SETH M. MILLIKEN, OF THE MERCANTILE NATIONAL—C. W. MORSE CREDITED WITH PUTTING UP QUITE A FIGHT, BUT THE CLEARING HOUSE WAS INSISTENT WITH HIS BANKS—THE THOMASES WENT AT THE WORD GO—SOLD THEIR STOCKS, TOO, AS MORSE DID NOT—BIG CLEARING-HOUSE MEETING AND DIRECTORS' MEETINGS ON A SUNDAY.

The clearing-house committee worked on Sunday, and last night a state of contentment and satisfaction succeeded the foreboding and disgust created by the sordid disclosures of the previous half dozen days in certain clearing-house banks in which the Heinzes, the Thomases, and Charles W. Morse were officers. Every banker important in clearing-house circles was entirely satisfied that the clearing house had completed its work of purging thoroughly and well. It had driven out of control of clearing-house banks the elements that were considered unsound and unsafe, and had vastly improved the banking situation by relieving it of skyrocket banking.

Moreover, bankers were unanimous in the belief that they had done their work in time to save all the banks in which the loose banking methods were practiced. Not only had they done it in time, a clearing-house banker said last night, but they had done it in abundant time and found the banks solvent.

Therefore, after one of the most important meetings in the history of the clearing house, a meeting at which there were present a remarkably large number of sound and responsible clearing-house bankers, and at which every phase of the situation was discussed, the bankers decided to support the National Bank of North America, the New Amsterdam National Bank, whatever other Morse banks might need assistance, and the Mercantile National. A thorough examination of the institutions had been made and the examiners reported them solvent beyond a doubt. The official statement of the decision was expressed as follows:

"A committee of the clearing house has examined certain banks of the association that have been under criticism and finds them solvent. The clearing-house committee has decided to render them such assistance to meet their debits as the committee may think necessary."

THOMASES SELL OUT AND RESIGN.

Before this decision was given out, the process of eliminating unsatisfactory factors had been completed. In the place of Fritz Augustus Heinze, as president of the Mercantile, there had been selected Seth M. Milliken, a responsible

and wealthy merchant. The Thomases had given notice of their resignations from the boards of the two clearing-house banks of which they were directors, and had not only resigned all other banking offices held by them in this city, but had announced the sale of their holdings in the only two banks they controlled, O. F. in the Consolidated National and E. R. Thomas in the Hamilton Bank, and had resigned, respectively, as presidents of the two institutions. These banks are small concerns not members of the clearing house, and the clearing-house committee had not bothered about them. Nevertheless the news of the Thomas elimination from them was welcome.

FURTHER ELIMINATION OF C. W. MORSE.

In the case of Mr. Morse, also, the process of elimination had been completed by tentative arrangements for the transfer of stock control in his banks and the election of a new president in the person of W. F. Havemeyer at the National Bank of North America. Mr. Morse struggled hard to avoid the fate in store for him, but all his efforts were futile against the determination of the clearing-house bankers. As was stated yesterday, plans for the transfer of stock holdings were complicated by the fact that so much if not all of the holdings are hypothecated in various banks for loans.

NOTICE TO BANK EXPLOITERS TO QUIT.

"The gist of the situation is just this," a banker said last night. "The clearing house has decreed and has enforced the decree that persons who buy stock control in banks, put the stocks up as collateral for loans in other banks and borrow the deposits of the banks they and their associates control in order to float their corporation schemes, shall not do business under clearing-house auspices in this town."

MORSE AND HEINZE LOANS MUST BE TAKEN UP.

In connection with loans from banks the clearing-house committee, before it would announce further aid to the Mercantile, bluntly and flatly told the Thomases, Mr. Heinze, and Mr. Morse that they must pay back their loans to that institution. There was no equivocation about it. Those loans must be paid, and that was all there was about it. They must pay them, too, forthwith; must pay them if they had to sacrifice their securities at an even lower range of stock market prices than, largely because of the operations of the Thomases, the Heinzes, and Mr. Morse, exist at present.

[The Washington Post, Monday, Oct. 21, 1907, p. 1.]

BANKS CLEAN HOUSE—HEINZE, MORSE, AND THOMASES ALL ARE NOW OUT—STRONG SUPPORT PROMISED—DANGER CRISIS IN NEW YORK BANKING CIRCLES BELIEVED OVER.

CLEARING HOUSE WILL RENDER ALL NECESSARY AID TO AFFECTED INSTITUTIONS—SETH M. MILLIKEN ELECTED PRESIDENT OF MERCANTILE NATIONAL—OUSTED INTERESTS REQUIRED TO REPAY BORROWINGS AS PREESSENTIAL TO ASSISTANCE.

NEW YORK, *October 20.*—The clearing-house committee late to-night announced that the Heinze, Morse, and Thomas interests had been eliminated from the banking organizations of New York City, and in the light of this fact, the clearing-house association declared its readiness to lend all necessary aid to any of the banks which have been under suspicion, the investigation having established their solvency. It is believed that this action will prevent any crisis in New York banking circles.

At a special meeting of the board of directors of the Mercantile National Bank this afternoon Seth M. Milliken was elected president of the bank to succeed F. Augustus Heinze, resigned. At the same time William Skinner and Gerish H. Milliken were elected additional vice presidents, Gerish H. Milliken being added to the board of directors. It is understood that the Mercantile National Bank will undergo a process of slow liquidation.

William F. Havemeyer, one of its directors, was to-day elected to the presidency of the National Bank of North America, succeeding Alfred H. Curtis, resigned. This is one of the institutions that had been controlled by Charles W. Morse.

THOMASES ALSO ARE OUT.

The official statement of the clearing-house decision was expressed as follows: "A committee of the clearing house has examined certain banks of the association that have been under criticism and finds them solvent. The clearing-house committee has decided to render them such assistance to meet their deposits as the committee may think necessary."

Before this decision was given out the process of eliminating unsatisfactory factors had been completed. Orlando F. and E. R. Thomas had given notice of their resignations from the boards of the two clearing-house banks on which they were directors, and had not only resigned all other banking offices held by them in this city but had announced the sale of their holdings in the only two banks they controlled. O. F. Thomas, in the Consolidated National, and E. R. Thomas, in the Hamilton Bank, had resigned, respectively, as president of the two institutions. These banks are small concerns, not members of the clearing house, and the clearing-house committee had not bothered about them.

Following a conference of the directors of the institutions to-night, it was formally announced that William O Allison would succeed Orlando F. Thomas as president of the Consolidated National Bank. Mr. Thomas, it was said, had sold his holdings in the bank to Mr. Allison and Thomas J. Lewis, who already were large stockholders and active in the management.

REASON FOR PUNISHMENT.

"The gist of the situation is just this," a banker said to-night. "The clearing house has declared and has enforced the decree that persons who buy stock control in banks put the stocks up as collateral for loans in other banks and borrow the deposits of the banks they and their associates control in order to float their corporation schemes—such persons shall not do business under clearing-house auspices in this town. The persons now detected in it are the first persons who ever got into the clearing house to perpetrate such acts. They are the first and they will be the last."

In connection with loans from banks, the clearing-house committee, before it would advance further aid to the Mercantile, bluntly and flatly told the Thomases, Mr. Heinze, and Mr. Morse that they must pay back their loans to that institution.

There was no equivocation about it. Those loans must be paid, and that was all there was to it. They must pay them, too, forthwith; must pay them if they had to sacrifice their securities at an even lower range of stock-market prices than exists at present, largely because of the operations of the Thomases, the Heinzes, and Mr. Morse.

MORSE PROTESTED DECISION.

Mr. Morse insisted, both at the stormy meeting in the Bank of North America Saturday night and at other meetings to-day, that he was worth $11,000,000, even if liquidated at present prices. The retort came easily and glibly that if this were the case Mr. Morse should have no difficulty in paying off his loans. Mr. Morse insisted that he could; that his loans were amply secured, and that he ought not to be obliged to sacrifice his holdings in the depressed condition of the market.

With F. Augustus Heinze, bankers declared the question of payment of loans seemed entirely a matter of ability to do so. Mr. Heinze's borrowings are said to have been much heavier than those of either Mr. Morse or the Thomases put together, though there is doubt of this in the case of Mr. Morse. Mr. Heinze has a loan, secured by Mercantile Bank stock, in the Bowling Green Trust Co., of which Edwin Gould, from whom he bought much of the stock, is president. He also has a loan of $600,000 in a bank in which members of the Heinze party have an interest. He was notified several days ago—at the time of the collapse of the United Copper corner, in fact—that this loan must be paid. But it has not yet been paid.

DENIES HE WAS FORCED OUT.

Mr. Morse, when seen at his home at 728 Fifth Avenue to-night, said he had no further statement to make in regard to his position in the banking situation. He said very emphatically that no pressure had been brought to bear upon him to resign from his official position in his New York banks.

"I was very glad to get out," he said. "There was nothing in it for me. I am satisfied with remaining a stockholder and having nothing further to do with the management of the banks in which I am interested. I do not intend to sell any of my holdings of stock in them.

"My only reason for resigning was that I felt that after all the notoriety connected with the Mercantile Bank, a formal resignation from the banks with which my name was officially associated would prevent anything in the form of a run upon them. There are to be no changes, so far as I know, in the directorate of the New Amsterdam or any other of my banks. I shall devote myself more now to my other interests."

Mr. Morse seemed very much amused when he was told that a story was current that he and his wife, thoroughly disgusted with the situation, intended to sail for Europe to-morrow.

"It is ridiculous," Mr. Morse said.

[The World, Monday, Oct. 21, 1907, p. 1.]

CLEARING HOUSE WILL STAND BACK OF ALL THE BANKS.

Its committee announces that aid shall be extended to any of them needing if to meet their deposits. Morse, the Thomases, and Heinze, having resigned from them and disposed of their stock.

New presidents are chosen for four banks.

W. F. Havemeyer for National of North America, S. M. Milliken for Mercantile National, W. O. Allison for the Consolidated National, and W. R. Montgomery for the Hamilton.

J. Edward Simmons reassures the public.

J. Edward Simmons, president of the Fourth National Bank, and, in point of service, one of the oldest members of the clearing-house committee, has authorized the World to make the following statement:

"The action of the clearing-house committee to-day in sustaining the three banks that have been under criticism ought to reassure the public sufficiently and allay any further anxiety whatever."

By a victory absolute, unconditional, and relentless the clearing-house committee yesterday eliminated from the banking business of New York City Charles W. Morse, E. R. Thomas, O. F. Thomas, and F. Augustus Heinze, changed the presidents of four institutions, and then pledged the aid of their association to all the members during any crises that may arise.

Accompanying this pledge was a clean bill of health for all banks that have been examined and the intimation that all others mentioned in the last week will be found solvent.

The action of the committee was regarded as most effective and so improved the general situation that it is believed there need not be a single failure, suspension, or liquidation for the present. The statement of the committee given yesterday morning follows:

"A committee of the clearing house has examined the several banks of the association that have been under criticism and find them solvent. The clearing house committee have decided to render them such assistance to meet their deposits as the committee may think necessary."

"OUGHT TO REASSURE THE PUBLIC."

The effect of this statement was summed up last night for the World by J. Edward Simmons, president of the Fourth National Bank and in point of service one of the oldest members of the clearing house committee. Said Mr. Simmons:

"The action of the clearing house committee to-day in sustaining the three banks under criticism ought to reassure the public sufficiently and allay any further anxiety whatever."

In this expression Mr. Simmons was heartily supported by all other members of the committee seen, one bank president saying decidedly:

"Now that the criticized element has been effaced, there is no reason for any bank of the city to fail, and I do not think any one of them will go under. There may be a drain on some institution to-morrow, but that has already been provided for, and it will be met without difficulty. There will be enough support for any one of the banks to withstand a three days' run, and by that time we believe it will all be smoothed over and forgotten."

The plan under which the clearing house determined, instead of allowing the Thomas-Morse-Heinze to go under, to go to their assistance was thought of late Saturday afternoon, when the committee was holding frequent conferences with the four men mentioned; it was put forth as the only alternative and was in this way very tersely stated by the committee:

"Get out of the business, or you must look after yourselves Monday morning.

"It was frankly admitted that not one of the institutions or the men themselves could withstand the run that would follow such a decision, and the four men agreed to part with their holdings to whoever would be acceptable to the clearing-house men."

RESIGNATIONS MADE.

Charles W. Morse and the other men mentioned wrote their resignations as directors and officers of a score or more of banks and promised to place their stock with the committee to be sold. In this there was a slight hitch, for it was found that all four had at that time hypothecated their stock for loans, and the shares would not be available immediately.

Mr. Morse resigned as vice president and director of the National Bank of North America, as a director of the Mercantile National and the Fourteenth Street Bank, as vice president and director of the Garfield National Bank, as a director of the Lincoln National Bank, of Bath, Me., as vice president and director of the New Amsterdam National Bank, and from the New Amsterdam Deposit Co., the New York Mortgage & Security Co., the New York Produce Exchange, Van Norden Trust Co., and Van Norden Safe Deposit Co.

E. R. Thomas at a later meeting drew up his resignation as president and director of the Hamilton Bank, as director of the Consolidated National Bank, as vice president and director of the Mechanics & Traders' and the Mercantile National, and offered to withdraw from the Bowling Green Trust Co. and the Hudson Trust Co.

O. F. Thomas tendered his resignation as a director of the Bank of Discount and Consolidated National, of which he was president and director; the Hamilton Bank, the Mercantile National, and offered to withdraw from the Hudson Trust Co.

The resignations of Heinze had already been obtained and were added to the pile. They were from the Consolidated National and Mechanics & Traders', and the Mercantile.

With the effacement of the four men from the banking business the clearing house made the changes they thought necessary in the banks. The committee in these cases only suggested or approved the suggestions made for new officers.

[The World, Tuesday, Oct. 22, 1907.]

CLEAN HOUSE.

Through its committee the clearing house has eliminated F. Augustus Heinze and all of Heinze's directors from the Mercantile National Bank. Likewise it has brought about the retirement of C. W. Morse and E. R. Thomas from the banks with which they were connected.

Why should not the clearing-house committee complete the work it has so excellently begun and reestablish legitimate banking in New York by treating Ryan, Rogers, and Harriman as it has treated Heinze, Thomas, and Morse?

If the clearing house can rid the banking business of Heinze, Thomas, and Morse, it can rid the business of Ryan, Rogers, and Harriman. It can force the resignation of their dummy directors as easily as it forced the resignation of Heinze's. The fact that Ryan, Rogers, and Harriman are exploiting institutions of far greater financial strength than those manipulated by Heinze, Thomas and Morse has nothing to do with the issue of honest banking.

[The New York Times, Sunday, Oct. 20, 1907, p. 1.]

C. W. Morse Quits the Banking Field.

HE RESIGNS FROM ALL BANKS AND TRUST COMPANIES HE WAS INTERES HERE—ALSO OUT OF MAINE BANK—CONTROLLER RIDGELY DECLINES PRES OF THE MERCANTILE—FURTHER AID GIVEN—BANK POSITION CLEARING.

With the resignation last night of Charles W. Morse from all the banl trust companies in this city with which he was connected in any capacity ever the entanglements arising from the United Copper and Mercantile Na Bank affairs were much unraveled, and the prompt and vigorous measu the New York Clearing House to clear up the situation carried well on t complete success.

This step was prompted presumably by the fact that Mr. Morse foun general interests and his banking connections in such practical conflict th resignation left the clearing house a freer hand to cope with the entire sit which is now looked on as substantially cleared up.

This development, important as it was, was only one of a series, inc the refusal by Controller Ridgely of the presidency of the Mercantil tional, the occurrence of another big debit balance by that bank at the ing house amounting to over $1,000,000, and a conference between the Tl and Heinze interests at the Waldorf-Astoria, on which neither F. A. I nor E. R. Thomas would comment.

At the opening of the banking day yesterday a meeting of the clearing representatives was held at the clearing house in order to consider the g banking situation, and more particularly to meet the necessities in conn with the settlement of the Mercantile National Bank's clearances.

This meeting was attended by Acting Chairman of the Clearing l Committee W. A. Nash, president of the Corn Exchange Bank; by Alex D. Gilbert, president of the clearing house and the Market & Fulton tional Bank; by A. Barton Hepburn, president of the Chase National E by Dumont Clarke, president of the American Exchange National Banl J. Edward Simmons, president of the Fourth National Bank; by Geor Baker, president of the First National Bank, and by Vice President Fre the Corn Exchange National Bank.

MERCANTILE'S BALANCE MET.

At this meeting the committee agreed to make up any part of the Merca National Bank's debit balance of $1,137,000. which the bank itself migh itself be able to pay. This balance the clearing house was called upon to vide the great bulk of this payment.

In connection with the decision of the clearing-house representative extend this aid to the Mercantile National yesterday as it had extended si aid the day before, it was definitely made known that the committee wa committed to make any further payments on behalf of the Mercantile Nati and that each day's clearances were to be considered by the committee pendently of any previous action which it may have taken.

It is, in fact, the understanding in the financial district that the comm is not disposed to continue assisting the Mercantile National if its debit bal at the clearing house continue as heavy as they were yesterday. It is kn that the very large amount of the bank's debit balance yesterday was a sur in clearing-house circles. Regarding the committee's attitude on this poi member of the clearing house said yesterday:

"It is not the intention of the clearing house to pay off the deposits of Mercantile National Bank. The action which the committee is taking, by w we extend temporary aid to the bank, but the bank must in the long run upon its own resources, and the committee can not be expected to go on pro ing for debit balances as heavy as that returned against the bank to-day."

Among the banks and trust companies from which Mr. Morse resigns are National Bank of North America, of which he was vice president and dire the New Amsterdam National Bank, director and vice president; the Gar National Bank, director; Fourteenth Street Bank, director; New York Pro Exchange Bank, director; Mercantile National Bank, director; Van No Trust Co., director. He is also in two financial institutions of Bath, Me., native town. The officers of most of the institutions named acknowledged

		Te	Texa		Wyoming.	
1			$10,000 to $10		$10,000 to $100,000	1
2			All		50 per cent	2
3					6 months	3
4			10 per cent			4
5			50 per cent			5
6	ry		Yes		Yes	6
7	5		5 to 25		5 to 9	7
8			Must hold shares, etc.	ajor- of	Citizens of United States; majority residents of Wyoming; owners of certain stock.	8
9	ually			by di- ock-		9
10			Examiners of	r of		10
11						11
12	retary of state mptroller.		Yes; commis agriculture, ance, etc.		Yes; State examiner	12
13			Annually to ture.	rnor.	Annually to governor.	13
14			Yes		Yes	14
15			Yes		Yes	15
16			Two		Four	16
17						17
18			Four		One	18
19			25 per cent			19
20						20
21				per		21
22			One-tenth			22
23			Nine-tenths	scre-		23
24						24
25			25 per cent	ex-	20 per cent	25
26			Yes		Yes	26
27			Yes		Yes	27
28			Deposits limi			28
29			Limited in amount an	cent de- cep-		29
30			Yes		Yes	30
31			Apparently a	ys.		31
32	tly allowed		Forbidden			32
33			Compulsory			33

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BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 23

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

ROBERT L. OWEN, Oklahoma, *Chairman.*

GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio.
JOHN F. SHAFROTH, Colorado.
HENRY F. HOLLIS, New Hampshire.
KNUTE NELSON, Minnesota.
JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk.*

receipt of Mr. Morse's letters of resignation, and the announcement itself was made by one of his personal associates.

Developments in the affairs of the Mercantile National Bank yesterday included the return at the clearing house of a debit balance of $1,137,000 against the Mercantile National, the bulk of which was made up by the clearing-house association; the refusal of Comptroller of the Currency Ridgely to accept the presidency of the bank, which the directors had offered him on Thursday; the appearance of further evidence of a strained situation between the old management of the Mercantile National Bank and the clearing-house committee; and, finally, the definite statement that the clearing house did not mean indefinitely to extend aid to the institution from which Mr. Heinze resigned as president two days ago.

[The New York Times, Monday, Oct. 21, 1907, p. 1.]

BANKS SOUND; WILL BE BACKED.

THE STRENGTH OF THE CLEARING HOUSE PLEDGED TO GIVE ALL NEEDED SUPPORT—THE THOMASES ALSO OUT—SETH MILLIKEN HEADS MERCANTILE AND W. F. HAVEMEYER THE BANK OF NORTH AMERICA—DISTURBING FACTORS QUIT, AND SPEYER, SCHIFF, AND OTHER LEADING BANKERS AGREE THAT THE SITUATION IS NOW CLEARED UP.

Following a prolonged meeting of the clearing-house committee, which lasted practically all Saturday night and was continued at the clearing house itself yesterday morning, announcement was made that the examination which the clearing house had made of the banks under criticism had shown them to be solvent and that the committee had decided to extend to them such aid as the committee might deem necessary to help them meet the demands of their depositors.

This referred specifically to the National Bank of North America and the New Amsterdam National Bank, from which Mr. Morse retired to aid in clearing up their affairs, but the announcement was taken as implying the banking situation generally.

At a late hour last night the Associated Press was assured by the clearing-house committee that the Heinze, Morse, and Thomas interests had been eliminated from the banking organizations of New York City, a fact made patent by the events earlier in the day.

Banking houses of international prominence were agreed last night in the belief that the clearing house's measures will successfully meet the situation. Several bankern in this group, including James Speyer and Jacob H. Schiff, expressed their views to this effect to The Times.

The CHAIRMAN. If that is all you have and the committee have no questions to ask, we will adjourn at this time.

(The following communication, addressed to the committee, was, at the suggestion of the chairman, incorporated in the record at this point:)

WASHINGTON, D. C., *October 3, 1913.*

The CURRENCY COMMITTEE,
United States Senate, Washington, D. C.

GENTLEMEN: Believing that you are attempting to get at the real sentiment of the bankers of this country regarding the proposed currency bill and not desiring to take too much of your valuable time, and having been requested by the bankers of the western half of the State of South Dakota to represent them before your committee, am placing before you, in writing, our objections to the pending bill.

I believe that the bill will not meet with the approval of the banks of the State which I represent, and unless very much modified, many of the national banks will be compelled to leave the national system. We believe firmly in Government supervision but not in Government control, more especially when we are furnishing the capital.

Second, we believe that the taking advantage of the plan proposed should be optional and not compulsory.

Under the bill as it is at present we would suffer considerable financial loss; take, for instance, the bank of which I am the president, the First National

Bank of Deadwood. S. Dak.; we have a capital of $150,000; 20 per cent in stock in the regional bank would take $30,000; our deposits are in the neighborhood of $1,300,000; 5 per cent of this amount as a reserve in the regional bank would be $65,000. On the first-named amount we are to receive 5 per cent dividend, if the regional bank earns it; with any more than three regional banks their ability to earn this amount we very much doubt. On the latter amount we are not to receive anything, so out of our capital of $150,000 we must have invested in the regional banks $95,000, almost two-thirds of our capital, which we can not use and on which we receive no return. Then again, the bill as now constructed takes from us one of our large items of revenue, the item of exchange. The loss of this revenue to country banks will prove a severe hardship to them; in our bank this is in the neighborhood of $6,000 a year, and I believe this a fair average of country banks existing under the same conditions as we do.

Before leaving for Washington I solicited nearly every national bank in that part of South Dakota which I am here representing as to how they consider the bill as now proposed, and almost every one replied and practically as I have outlined.

I am thoroughly conversant with the fact that the objections I have made are not new to your committee and that practically every section of the country have brought the attention of the committee to the same ones, but we are desirous of stating herein most emphatically that we believe, with the great majority of the bankers of the United States, that the bill in its present form is unworkable, and a great many of the banks now in the national system will refuse to accept the provisions of the same by leaving the national system and applying for State charters.

Thanking you on behalf of the bankers of South Dakota for any favorable consideration you may give this communication, I am,

Very sincerely, yours,
N. E. Franklin.

(The chairman also presented the tables for insertion in the record which face this page.)

(Thereupon, at 2.40 p. m., the committee adjourned until Monday, October 6, 1913, at 10 o'clock a. m.)

MONDAY, OCTOBER 6, 1913.

Committee on Banking and Currency,
United States Senate,
Washington, D. C.

The committee assembled at 10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Reed, Pomerene, Shafroth, Hollis, Nelson, Bristow, Crawford, and Weeks.

STATEMENT OF GEORGE H. SHIBLEY, DIRECTOR AMERICAN BUREAU OF POLITICAL RESEARCH, WASHINGTON, D. C.

The Chairman. Gentlemen, I should like to say for Mr. Shibley that he has been a long time engaged in the study of public questions. He has been a publicist in, I think, a very patriotic and high sense and is a man for whom I have a great respect. He was invited to appear before the committee, especially in connection with the probable effect of this bill and what might be possible under this bill in promoting a more stable price level. He has made a specialty of studies along that line.

The book you have before you is a book dealing with the wholesale prices from 1890 to 1912, showing the methods by which the Government has been trying to ascertain a means of knowing what

the price level really was. Mr. Shibley will refer to this volume in discussing this matter, and for that reason it is placed before you and the request is made that you make it a part of your files, taking the copy with you, so that you may have it available in studying the proposed bill.

Mr. SHIBLEY. Mr. Chairman and gentlemen of the committee, it is usual, I believe, to state something as to one's experience with the subject before you.

The CHAIRMAN. I should be glad to have you put it in the record.

I.

Mr. SHIBLEY. For five and a half years I have devoted my entire time to the money question from the public standpoint, and for the past five months have devoted my entire time to the question before this committee. For 19 years I have devoted my entire time to public questions from the people's standpoint without holding public office, and I have more than paid my own way, and have perhaps expended $100,000 besides giving my time.

Senator CRAWFORD. Have you been teaching or publishing a magazine or paper? In what capacity have you been doing this work?

Mr. SHIBLEY. I will come to that in a moment. I have been asked to go back into business, with a salary of from $6,000 to $10,000 a year and business profits, but that has not enticed me away from this work.

My experience leading up to this public work has been this: First, I graduated in law in Illinois in the year 1888, and I have since become a member of the bar of the United States Supreme Court. My training besides has been that which I have gained in legal research and law publication. In fact, I helped to build the American and English Encyclopedia of Law to volume 15 of the first edition. At that time I was able to retire from work with a competence. I then engaged in legal research, and took up regular courses in political economy, political science, and social science in general.

In 1899 I founded in New York City the Bureau of Economic Research, and associated with me were Profs. John R. Commons and Edward W. Bemis. Prof. Commons is now in the University of Wisconsin and Prof. Bemis is working as a municipal expert from the people's standpoint.

Back in those days of 1899 the entire country was in the grip of "machine rule," the dominating power being composed of the worst elements in society. What we set out to do was to try and find a feasible program for the progressive Democracy and its allies in the two other progressive parties, namely, the Silver Republican Party and the People's Party. My department was that of money and banking. We measured the price level for the preceding 21 years, at a cost to me of $3,000. This measurement was for the purpose of getting a sure basis from which to work. Then, preparatory to the holding of the progressive conventions of the year 1900, I put forward the idea that as the monetary principle in the Democratic platform of 1896 was against an appreciating money and for stability, that therefore the 1900 declaration in the face of a depreciating pur-

chasing power for money, ought to be for stability, and I secured the adoption of my plan, first, by Mr. Bryan's acceptance, and he secured its adoption by the Democratic national convention, which provided. as I shall presently show, that as fast as silver money should come into being, coined at our mints under free coinage of silver, an equal amount of paper money issued by the national banks should be retired.

I cite this to show my experience in proposing a practicable plan for establishing stable money, and a plan which, when placed in operation, would be so equitable as to remove the money question from politics.

During 1895 and 1896 I compiled a volume of 740 pages, entitled "The Money Question," with a subtitle including the name "Stable Money," that being the keynote to what I found to be desirable. The official journal of the French Bimetallic League gave the volume a high testimonial; and I also especially prize a letter received from a professor of Cambridge University, England, Prof. Foxwell, a specialist on the money question, who said:

> This volume is certainly the best for its purpose known to me. Only those who have themselves worked at the history of money will fully realize the enormous labor its compilation must have required.

Senator Jones, of Nevada, who in his day was probably the widest read man on the money question of anyone in the United States Senate, wrote:

> I find it the best and most comprehensive work on the subject that I have ever seen.

Those statements describe my fist book on the subject 17 years ago. Since then I have compiled a large amount of data and it has been issued in various forms.

The facts and principles that are not generally known and which will be helpful for this committee to have before it, I will outline in as terse a way as possible, and then will be glad to answer questions.

II.

To give you an idea of the way I have gone about the examination of the money question, I will state that while I was engaged in my legal researches after having retired from business, I took standard courses in political economy and the other social sciences, as I have said. I studied at the University of Chicago. At the head of the department of political economy was Prof. J. Laurence Laughlin. When I finished my course in political economy I was an ardent gold monometallist. That was in 1894, at a time when debate on the money question was approaching its height.

But I saw a reference to the proceedings of the British Gold and Silver Commission, and a close reading of the testimony of the men who appeared before that commission showed me that for more than a century the market price of gold and silver had been at a practically constant market ratio, due to the laws in the Latin Union; that is, France, Italy, Belgium, Switzerland, and Greece, and also in the United States of America. These laws granted free coinage to both metals, and there was the further fact that both gold and

silver money circulated side by side in the Latin Union and the United States, at least for the greater part of the time. The result of the concurrent circulation of gold and silver money was that when, during the first half of the century, gold became comparatively scarce the heaviest gold coins were culled out, melted, and exported to the gold-using countries; the place of the culled-out gold coins was taken by silver coins, which flowed in through the mints. Later in the century, and at a time when the gold coins in the circulation of the countries having concurrent circulation had been pretty nearly exhausted, gold was discovered in Australia and California, and gold flowed into France and the other countries having bimetallic laws, and silver coins were culled out and exported in proportion as it paid to do so.

This process continued until 1873, when the action of the Latin Union, through the closing of the mints to silver, broke the link that had previously tied the two metals together at a practically constant market ratio, and when this link was broken the silver market was open to all of the factors which go to affect the price of a commodity.

This breaking of the link resulted in the existence of two separate monetary standards, the silver standard and the gold standard, and the two were in nowise constant to each other, so that there existed a broken par of exchange between the gold-standard and silver-standard countries, greatly to the injury of the gold-standard countries, as they went into an era of falling prices, while the price level of the silver-standard countries remained comparatively stable.

These facts were set forth in the unanimous report of the British Gold and Silver Commission in 1886, and the evidence on which the report was based is clear and absolutely convincing.

But the American university to which I had paid my money had deliberately swindled me. I use that term advisedly, for half truths had been told me, and half truths are the worst sort of falsehoods, because they have a semblance to the truth.

Further examination also showed the further astounding fact that all university professors in the standard institutions in this country who had appeared in print upon the subject were evading the issue concerning bimetallism or else were deliberately falsifying the facts, whereas in Europe the professors all knew of the facts and were freely telling them to the people.

The explanation of this remarkable difference in the so-called scientific institutions of Europe and the United States was the method whereby the professors were selected, employed, and paid.

III.

In Europe, where the university system had had to struggle for an existence, on one side there being dogmatic theology and on the other plutocratic governments, there had developed a system in which the experts in the universities were free to tell the truth—academic freedom existed. This freedom was and is maintained in Europe by providing that the selection of professors shall be by fellow experts; second, that their term of office shall continue during good behavior; and, third, the funds for the payment of salaries shall in nowise be

dependent upon the donations of those who are selfishly interested in the subjects handled by the professors.

But in the university system in the United States, from the beginning, the professors have been hired by boards of directors composed of business men, principally, and, with the exception of the few State universities that have come to be developed, the universities and colleges have had to shape their teachings so as to get endowments from the wealthy; and, third, the boards of directors have retained in themselves the power to drop a professor's name from the pay roll at the end of any year except as a few special contracts have been made for a term of years. The consequences have been that the conservative and reactionary rich people in the United States—reactionary in so far as desiring to keep the people from exercising self-government and thereby controlling the wealth of the country—have dictated much of the political and economic teachings in the colleges and universities in this country. These rich patrons of the colleges and universities have insisted upon "sound" teachings; meaning by the word "sound" that the teachings must conform to what they conceived to be sound.

The result has been deceit and falsehood in much of the political and economic teachings in the universities, the excuse being that the telling of the truth to the people would cause the people to hurt themselves. On that point I quote from a book issued by Prof. Francis A. Walker, of Yale University, published in 1889. The book is entitled, "Money, Trade, and Industry." One of its chapters is entitled "The Abuses of Government Paper Money," in which the author says:

> The single liability to abuse, in the case of Government paper money, is found in the tendency to overissue. To this and the fiscal exigencies of government are likely to combine with a popular passion for a money of a diminishing value (p. 224).

Note the assertion that the people possess "a passion for money of a diminishing value." In other words, that by nature they are robbers and, therefore, unfit for self-government.

Next note the following admission. Prof. Walker, in a chapter dealing with the effects of contraction, says:

> Especially with regard to the effects of contraction have economical writers been greatly influenced by the attitude in which they have come to regard themselves as preachers instead of teachers; as in some degree responsible for the conduct of affairs rather than as simply bound to investigate economic phenomena fearlessly and impartially. Having satisfied themselves that there is great political danger from the instincts of repudiation and confiscation, they seem to feel it their public duty to divulge nothing that, either by being understood or misunderstood, could minister to those instincts.

And he added:

> This is not the only department of political economy in which much has been written in the same spirit as if the chemist should refuse to disclose the secrets of poisonous agencies lest men should take advantage of them to perpetrate crimes (p. 105).

Here we have an admission by a noted and frank professor that vital truths were being concealed from the people because, as he asserted and believed, the people were possessed of "instincts of repudiation and confiscation."

Senator WEEKS. Mr. Chairman, may I interrupt the speaker at this point to say that I knew Prof. Walker, to whom he refers, very

well. He was a distinguished soldier of the Civil War. At the time he wrote the treatise which is being quoted he was a professor at Yale University, and was later the distinguished president of the Massachusetts Institute of Technology. I think I am safe in saying that Gen. Walker did not intend to convey the impressions which the speaker has obtained from the quotations which he has read. I just want to insert that statement, because Gen. Walker can not defend himself; he is dead; and I want to make that statement with respect to his memory.

The CHAIRMAN. The witness will proceed. I perfectly well comprehend the attitude of mind of both the writer and the critic of the writer, and I do not think the writer exceeded in any degree the integrity of mind of the critic.

Senator NELSON. I supposed that this question of bimetallism had been settled long ago.

The CHAIRMAN. It has; but I think the witness ought to be allowed to develop his own argument. It has an intellectual coherence that deserves to be considered.

Senator WEEKS. I did not want to interrupt the witness at all. I simply wished to say that because of my personal acquaintance with Gen. Walker.

The CHAIRMAN. There are many upright and excellent men who do proceed upon the theory that the people can not be trusted, and who do proceed upon the theory that the issuance of paper money is a very unsafe and unwise thing, because the people will require their representatives to issue it in excess, and to an excess which will practically mean depreciation and therefore an unfair dealing with others.

Mr. SHIBLEY. Mr. Chairman, I am using quotation marks and giving exact reference to the pages so that the references can be examined. I have stated that Prof. Walker was exceptionally frank and open in this matter.

Senator CRAWFORD. I suppose we can all draw our own conclusions as to what Gen. Walker really ment.

Mr. SHIBLEY. Most assuredly; the words are there.

I well remember the effect upon me when I came upon this confession and assertion. I at once set to work to examine the facts presented which were said to prove that the people are by nature mere robbers, and thus not fitted for self-government. As I was a lawyer and of mature years I started in to carefully weigh the evidence. I found that the professors were in error. The people have at times clamored for paper money, it is true, or the restoration of the bimetallic standard, but I found that when they did so it was when they were being robbed and industry was being paralyzed. That was clearly the situation in this country following 1868 when a deliberate plan of contraction to extend over a series of years was entered upon, which brought on a terrific depression, which led to civil war in Pittsburgh in 1877. The way to have returned to a specie basis was to have done so quickly and then deal justly with all debtors, as was done at the close of the Revolutionary War in this country. This plan of the Revolutionary-War times was favorably passed upon by the United States Supreme Court in 1803. In earlier times, between 1750 and 1760, a similar reform had been wrought in some of the northern colonies.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 23

[Printed for the use of the Committee on Banking and Currency]

WASHINGTON
GOVERNMENT PRINTING OFFICE
1913

I have just said that when the people have demanded paper money or the restoration of the bimetallic standard, it has been when they were being robbed and industry was being disorganized. But in most of the universities in this country and among the bankers and others, the wrongful assertions have been and are being constantly made that the people are by nature mere robbers, and therefore that the people should be deceived into being kept from the control of the volume of money. This is the inside meaning of "sound money."

But this assertion against the people's honesty is a base falsehood, as history shows, and therefore deceit and falsehood are the basis of the "sound money" doctrines. From the time of the Revolutionary War in this country, when a large percentage of the wealthy people were Tories, the teachings in the universities and colleges have conformed to the assertions of the wealthy supporters of these institutions that the people are by nature mere robbers, and therefore that self-government by the people should not be permitted. Especially should the control of the volume of paper currency be kept from the people.

This has been the textbook teaching which every man has received in the privately owned universities in this country and in most of the State universities. Uusually the statement has been put forth in so smooth a manner as not to shock the students, as does Prof. Walker's statement and explanation.

The way I came to find out that the people had demanded paper money or bimetalism only when they were being wronged was through the findings of a scientific system whereby the purchasing power of money was being measured accurately. The system is termed the index number of average prices, or general prices, or the price level. Permit me to set before you an outline of how, through this system, as provided for in the Owen-Glass bill and approved by the administration, the currency question can be definitely and finally settled in the forthcoming law, thereby providing an absolutely equitable monetary system and one that will result in a much greater prosperity for the country and for the entire world than anything yet experienced. This is a remarkable claim, but what I have to present will bear me out.

IV.

I now present the development of what has become a scientifically accurate gauge for determining the proper volume of money in circulation.

In section 15 of the Owen-Glass bill there is provision that the gauge to be used by the boards of directors in the Federal reserve banks in determining the proper interest rate for the rediscount of commercial paper to the banks shall be such as to promote a stable price level. The wording of this provision is as follows:

> Every Federal reserve bank shall have power * * * (*d*) to establish each week, or as much oftener as required, subject to review and determination of the Federal reserve board, a minimum rate of discount to be charged by such bank for each class of paper, which shall be made with a view to accommodating the commerce of the country and promoting a stable price level. (Sec. 15.)

The meaning of a "price level" is "purchasing power of money," so that the aim of the national board of directors and of the boards

of directors of the regional reserve banks, under the Owen-Glass bill, is to aim at stability in the purchasing power of money.

Doubtless the query arises in your mind, What is meant by the purchasing power of money?

I present an official answer by the United States Government, and it agrees with the statement by the Liberal Government in England and by the Liberal Government in Canada, and it agrees with the scientists.

Senator NELSON. Yes; but it never agrees with the facts. Why is it this year, for instance, that corn is nearly twice as high as it was last year? Is it owing to the money question?

Mr. SHIBLEY. No, sir; not at all. The volume of money affects the average prices, and the prices each year for the particular commodities change among themselves in relation to supply and demand, just as changes in the supply and demand of money affect the average of prices.

Senator NELSON. Those academic figures of yours are no measure at all, unless you take into consideration all these other factors—supply and demand, the failure of crops, whether crops are abundant or not. But go on.

Mr. SHIBLEY. That has reference to prices among themselves, and is accounted for by all scientists, and this that I have stated is accepted the same as the multiplication table is by the economic associations.

Senator NELSON. Why it is nothing but the quantitative theory of money; that is all.

Mr. SHIBLEY. The measurement of the price level is entirely separate from the quantitative theory.

On the table before you are copies of a publication by the United States Government entitled "Wholesale prices, 1890 to 1912." Please take them up and notice that the publication is by the Department of Labor, through its Statistical Bureau.

Kindly turn to page 10, whereon is a chart showing to the eye in graphic form the history of the purchasing power of money in this country from 1890 to 1912, inclusive.

I ask that a copy of this chart be inserted in the record and published. (Agreed to.)

This chart is entitled "Relative prices of all commodities 1890 to 1912." (See p. 1732.)

Senator CRAWFORD. Professor, I do not want to interrupt you, but in connection with section 15, where this board is given the right to establish the rate or adjust it according to the price level, would it not be just the same in effect as what the Bank of England does in fixing the rate of discount, or what one of the European banks does in fixing the rate of discount?

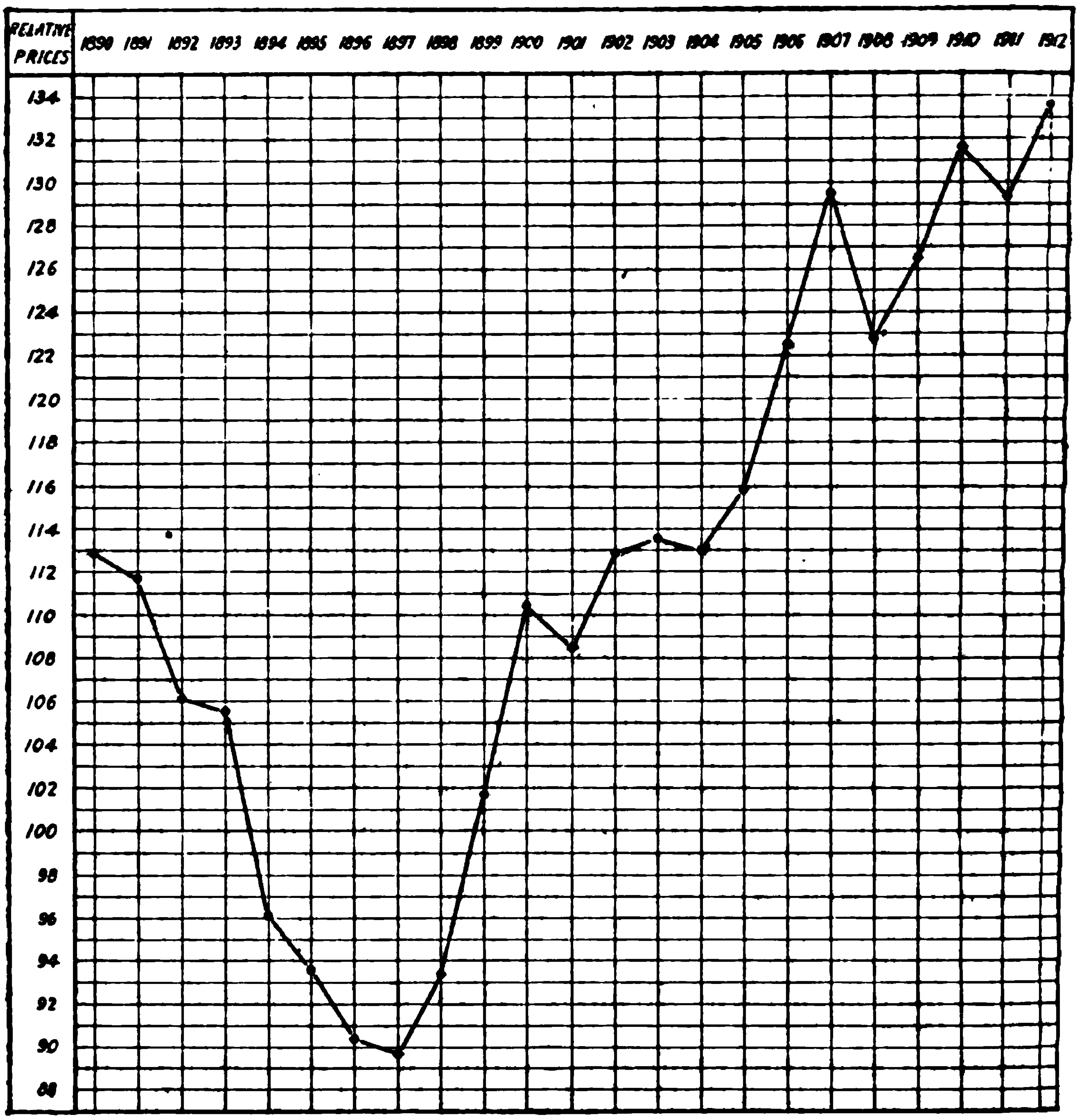
Mr. SHIBLEY. That is an excellent point.

Senator CRAWFORD. Would not its effect be no more and no less than the effect that follows the exercise of that power in those foreign banks?

Mr. SHIBLEY. There are two factors in the clause I have read; one is not present in the system of England. The matter of controlling the price level is exercised by the Bank of England and the criterion

toward which the bank operates as concerns the purchasing power of money is to retain within the country the proper volume of gold. The difference between England and the United States is that we have a larger amount of gold and are just beginning to intelligently control our price level, and now, adding our power to their excellent control, we can maintain stability in the price level.

Senator CRAWFORD. I supposed the purpose of this bill—you will pardon me—was also to permit these banks to purchase gold, and it



Relative prices of all commodities, 1890 to 1912.

[Average for 1890 to 1899=100.0.]

also requires them to keep a certain amount of gold in reserve, so that all the relation of this system to gold is practically the same as the relation of the English system and these other systems.

Mr. SHIBLEY. Precisely, with the exception that this bill says that the aim shall be to promote stability in the purchasing power, so that the chart line shall not zigzag as it does under the English system.

Senator CRAWFORD. I do not want to divert you unnecessarily.

Mr. SHIBLEY. You do not do so at all. So that in the future, if this proposed system becomes the established policy, instead of hav-

ing a zigzag line representing the purchasing power of money the line will be stable, the same as the number of cubic inches in a bushel; in other words, the proposal is to stabilize the purchasing power of the standard of value.

Senator NELSON. Your theory then is that the level of prices is simply a question of the volume of money?

Mr. SHIBLEY. That is one factor, and that factor the Government controls.

Senator NELSON. According to your theory that is the chief factor?

Mr. SHIBLEY. Oh, no; that is only one factor, but the Government, having control of it, can absolutely control the price level. One-third of our money is paper——

The CHAIRMAN (interposing). That is, it can "promote" the price level.

Mr. SHIBLEY. That, perhaps, is the better term; but I call attention to the fact that the Government, through its proposed system for the control of the interest rate for money, combined with a vast volume of paper currency in existence that can be retired at will to make room for gold money, and with the further power in the Government to issue paper currency, can absolutely control the price level.

Senator NELSON. I always supposed that the price level was fixed by the production and depended on the climate and the weather. Last year, for instance, potatoes were so abundant that the price was next to nothing. This year in some localities they are scarce and the price of potatoes is very high throughout the country. That is the case with corn. What has the price level got to do with that?

Mr. SHIBLEY. For a certain month it has nothing to do with this fluctuation——

Senator NELSON (interposing). This is, for a certain year—a certain season.

Mr. SHIBLEY. But if you take it for 16 years——

The CHAIRMAN (interposing). What is meant by that term "price level" in the present Government bulletin is a price level of 255 articles, as follows: Twenty articles of farm products, 55 articles of food products, 65 products of clothes and clothing, 13 products of fuel and lighting, 38 of metals and implements, 28 of lumber and building materials, 9 articles of drugs and chemicals, 14 articles of house-furnishing goods, and 13 miscellaneous.

Senator NELSON. My idea about that, Senator, is that possibly in in infinitesimal degree this quantitative theory of money may affect it, but after all it is a question of supply and demand. It is after all a question of production; some years our production is excessive and prices drop; other years it is scant and prices go up. Any figuring like that that does not take that into account is of no value at all.

The CHAIRMAN. It takes these things into account.

Senator NELSON. There is nothing in the book to show it.

The CHAIRMAN. If you will look in the book, I think you will find you are mistaken. You will find it goes down through a period of years with comparative regularity, and then goes up again.

Senator NELSON. It does not show that it takes into account the volume of supply and demand.

Mr. SHIBLEY. Oh, absolutely they do, and one of those great factors is the supply of credit and money as a whole, and Prof. Laughlin now admits it.

This chart is entitled "Relative prices of all commodities, 1890 to 1912." The words "relative prices" are the equivalent of "price level." On page 9 of the publication it is said:

The relative price [that is, the price level] used in this table is simply a percentage. The base on which the relative price is computed is not the price for any one year, but the average of prices for 10 years—from 1890 to 1899, inclusive.

I will add that the way this average of prices for the 10 years has been attained is explained in this and various publications. It appears that the market prices for 255 commodities at wholesale were carefully collected for the years 1890 to 1899, inclusive, and that the average for this 10-year period was given the basic number 100. Then by properly combining all of the 255 commodities the average for the 10 years was given the basic number 100.

Now, let us see just what it is that this index number of 100 represents:

It is an index number that represents the average of the prices of commodities at wholesale. It is an equation. On one side are commodities and on the other side are the prices for which they were actually sold in the markets. It is an equation; on one side are commodities and on the other are the prices in monetary denominations. In that way the purchasing power of money is measured. On one side is money and on the other side are commodities. The average for the 10 years, 1890 to 1899, inclusive, is given the index number 100, as I have said. Then for each of the 10 years the average is as follows for 1890 to 1897, inclusive: 1890, 112.9; 1891, 111.7; 1892, 106.1; 1893, 105.6; 1894, 96.1; 1895, 93.6; 1896, 90.4; 1897, 89.7; always on the down grade.

The year 1897 was the low point for prices for commodities at wholesale. It was 89.7. This was the average for the entire year.

The next two years the index numbers were 93, and then 101, a gain of 8 points in a single year. That was for 1899.

Beginning now with 1899, it was 101, and the following year it went up 9 points, taking the year as a whole. But during the summer and autumn of 1900 the price level started downward and continued falling well into 1901, going down 3 or 4 points. For 1902, as a whole, the rise, as compared with 1901, was 4 points higher. For 1903, as a whole, the price level was nearly stationary, although for part of the year there was a considerable fall. For 1904 the average for the year was about the same as for 1903. The next year, 1905, the price level went up 2 points, then up 7 points in 1906, and again the next year up 7 points more. These 14 points of rise in the years 1906 and 1907 were for the entire period, and we know that from September, 1907, to the end of the year there was a serious fall in prices, due to the collapse of our monetary system, including the cessation of specie payments. For 1908 the average of prices for commodities went down 7 points, and much more if the reckoning is from September, 1907. For 1909 prices went up nearly 4 points, to 126. The following year up 5 points more, and the next year, 1911, down 2 points, and for 1912 up 4 points, the high point for the price level to that time and higher than to-day, doubtless.

A glance at the chart as a whole shows that during the 23 years, 1890 to 1912, inclusive, there have been two main periods, one of falling prices, the other of rising prices. Stated another way, the

period of falling prices for commodities was a period of increasing purchasing power for money, and the period of rising prices for commodities was a period of decreasing purchasing power for money. The ideal is stability in the purchasing power of money year after year.

Presently I will show in detail why this is so. At this time I desire merely to point out that there is a system whereby the purchasing power of money is being measured scientifically. Permit me to outline briefly the development of the system to the present time, when we find that the Government of the United States is measuring the purchasing power of money, and has been doing so since 1902. Also the Governments of England and of Canada are officially measuring the price level, and all statisticians are agreed that the basic principles are sound.

The development of the mechanism for measuring the purchasing power of money is as follows:

In the year 1886, a time when the gold-standard world was in the depths of an industrial depression, due to serious changes in the purchasing power of money, as afterwards conclusively appeared, the British Association for the Advancement of Science appointed a committee of distinguished economists—

for the purpose of investigating the best method of ascertaining and measuring variations in the value of the monetary standard.

The committee appointed consisted of Mr. S. Bourne, Prof. F. Y. Edgeworth (secretary), Prof. H. S. Foxwell, Mr. Robert Giffen, Prof. Alfred Marshall, Mr. J. B. Martin, Prof. J. S. Nicholson, Mr. R. H. Inglis Palgrave, and Prof. H. Sidgwick.

The next year, 1887, the committee reported, and also the following year, and again the third year.

In the second report it is pointed out that during the preceding centuries methods had been devised for measuring the monetary standard and with fairly good success. About the year 1700 a book was published by Bishop Fleetwood, in which had been collated the records of such of the prices of commodities as—

happened to remain, and using a plan of means in which each article was considered to be of equal importance, showed approximately that the value of money had changed from century to century; that, as measured by the common articles of trade and consumption, a sovereign did not go as far in the time of that book as it did several centuries before; that it only commanded a sixth part of the average of leading commodities which it had commanded several centuries previously. The whole calculation was very rough, but it conveyed a sound historical idea that was useful and fruitful in the absence of a better.

Adam Smith [1723–1790], substituting wheat alone as a standard, was able to show changes in the purchasing power of money, though, of course, it would have been better to use more articles. Still the conclusion for wheat alone, considering its great importance in those times, was good enough to prove a change in the value of money.

Sir George Evelyn's index number, submitted to the Royal Society in 1798, led to a broad conclusion not substantially different from those of Adam Smith and Fleetwood.

In later times the researches of Prof. Jevons and the index number of the Economist, Sauerbeck, and others, have demonstrated conclusively that there has been a common movement in prices of the leading wholesale commodities, proving a variation in the value of money, relative to an aggregate of these leading commodities, which can, no doubt, be made use of by historians and economic students when they wish to give meaning to the money expression of the different periods.

The report then passed to a discussion of the various ways whereby the index number can be constructed, and recommended that the British Government should officially record the prices in England, and from these figures construct an index number of average prices, and also that individuals and corporations should be authorized to specify in their contracts for payment of money that such sums shall be paid as will transfer precisely the same purchasing power as the money would buy at the time the contract was entered into, the calculation to be made by the use of the Government index numbers. The report concluded with a recommendation that the committee be continued another year to more fully consider and report upon these things.

The following year the committee presented specific recommendations for the above-described proposals, and said:

> The main thing to get into the public mind is the notion that a monetary "standard" is itself a thing whose variations may require measuring for practical purposes. (Report of British Association for the Advancement of Science, 1889, p. 486.)

In other words, the gold dollar is our standard of value, but its purchasing power has varied greatly.

This statement should be indelibly stamped on the memory of each student of the money question. The so-called standard has been exceedingly variable, as we all know.

Since the issuance of the foregoing scientific reports by the British Association for the Advancement of Science, the British Government has commenced the publication of official records of prices and the issuance of an official index number for commodities thereby showing the variations in the purchasing power of money. This is being done through the British Board of Trade. The Canadian Government is doing likewise through its labor department, and so is the United States Government. This shows the development of an idea. Science has been applied to the money question.

That the purchasing power of money can be measured is as certain as that 2 and 2 make 4. It is recognized by every one who is trained in figures concerning prices. In every economic association the members discuss price levels with the same acknowledged existence of them as a fact as they would discuss the multiplication table should such a question arise among them. I have shown that the United States Government is officially measuring the price level or purchasing power of money, as also is the British Government and the Canadian Government. The only debatable point is as to the most just method for constructing the index number, but that question is in no wise connected with accepting the general idea that the purchasing power of money is being measured.

The most complete treatise, doubtless, as to just which way is the most preferable in constructing the index number is Prof. Irving Fisher's book entitled, "The Purchasing Power of Money," published by the Macmillan Co. Prof. Laurence Laughlin, one of the leading "sound-money" advocates, now admits that the purchasing power of money is being measured and properly so. In a paper read by him at the annual meeting of the American Economic Association, December, 1910, he used as a basis for his remarks the table of average prices of the Department of Labor of our Federal Government

(p. 31), and then proceeded to discuss the causes of the changes in the purchasing power of money.

I have gone into this general subject quite fully so as to forestall any claim that the purchasing power of money can not be measured. The bankers, as a general thing, do not know that the purchasing power of money can be measured, else they would support the administration's proposal to guard against undue inflation, because undue inflation is just what the House committee has planned for, evidently, as its bill plainly shows. The percentage of reserves that are to be kept in cash are to be cut in two (figures are quoted later), thereby providing for wild inflation, except as the national board shall decide otherwise; the whole great question being placed in the discretionary power of the President's appointees, which means that the President himself would become personally responsible for determining whether or not the looked-for inflation should go forward.

V.

Having shown that there is a scientific system for measuring the purchasing power of money and that the Government of the United States is actually taking the measurements and announcing the results, as we have seen in the chart, I next call your attention to another monetary principle, and that is that the administration bill provides for a unified control of the purchasing power of money in the United States.

Senator CRAWFORD. Professor, right on that point I am inclined to agree with you that the purchasing price of the gold dollar has been diminished because of the increased production of gold, and that that diminishing purchasing power can be expressed by setting over against it the commodities, etc. Yet, I do not quite see how you can rectify it unless you increase the number of grains of pure gold in this thing you call a dollar, so as to establish a parity between the gold dollar and these commodities you are setting over against it. I do not know how a board of control or a supervisory board can get down to that basic question unless the Congress of the United States undertakes to change the gold dollar by requiring an additional number of grains of pure gold to go into a gold dollar.

Mr. SHIBLEY. My argument leads right up to that point.

Senator CRAWFORD. It seems to me that is a very vital point in this question of maintaining price levels.

Mr. SHIBLEY. It is, and I am leading up to that point; that is, the quantity of gold in this country and how to control our price level in the future.

Senator NELSON. Professor, let me suggest this to you: We have about the same volume of money and the same character of money this year as we had a year ago.

Mr. SHIBLEY. Yes.

Senator NELSON. There is not any difference in the quantity, in the value, or character of it. Now, why is it that corn and potatoes are worth nearly twice as much this year as they were worth last year, and why is it that cotton is worth so much more? What has the quantitative theory to do with it?

Mr. SHIBLEY. It is because of the supply and demand for those particular articles to other articles.

Senator NELSON. If you do not take those facts into account, your whole scheme falls to the ground.

The CHAIRMAN. They are all taken into account; every item is taken into account, and he is going to give the proportionate part according to the volume.

Senator SHAFROTH. Do you want to be interrupted now, or would you prefer that we wait until you get through?

The CHAIRMAN. I think if Mr. Shibley is permitted to continue under the rules we have established heretofore it would be better, because he will give the points that will be anticipated by the questions of the members of the committee.

Mr. SHIBLEY. I am speaking of the unified control of the price level, which I consider to be a necessity.

A national board the members of which are to be appointed by the head of the Government, whom the people have elected, are by the bill directed to establish each week, or as much oftener as required, the rate of interest at which commercial paper is to be rediscounted by the 12 banks of issue to be located in various regions of the United States on the mainland.

The principle herein provided, that of a unified or central control of the interest rate for money, and thereby determining the height of the price level or purchasing power of money, has been in use in Europe for a long time. So effective has this system been that it had been adopted now in every country in Europe except Scotland. In Scotland various banks of issue compete with each other in fixing the interest rate and issuing paper money. This Scottish system exists in Canada and here in the United States.

With us the control of the interest rate for money, and thereby the control of the price level for commodity, is principally in the 25,000 banks, a few of which are tremendously powerful and their managers are stock speculators or interested in stocks dealt in on the stock exchange. Thus the great speculative banks in this country are controlling prices on the stock exchange. This method of controlling stock-exchange prices is not generally realized.

To understand something of the way the speculative banks in this country have regularly "milked" the stock market, one has only to compare the interest rate for money on the New York market with the interest rate for money in a country where its control is in a board of directors or the Government. In France during the 20 years 1886 to 1907 the interest rate for money was changed only 29 times; in Germany, 116 times; in England, 186 times; whereas in New York City the rate was changed thousands of times, and the rate has been as high as at the rate of 1,000 per cent per year, and even at that rate many people were utterly unable to borrow money; while in France the rate did not go above 7 per cent and money could always be had by those who had security and were willing to pay the going rate.

Senator WEEKS. May I suggest that you are comparing the rates of the Government banks with the rates of the joint-stock banks in the United States.

Mr. SHIBLEY. Yes; but they could always get money at that rate. Sometimes the rate is lower in the joint-stock banks over there, but never higher, and there existed a market in which a person could

always go and get money if he needed it, if he had security, whereas under our system, with the control in the speculative banks, the people have been at the mercy of these banks.

Senator CRAWFORD. Is not the prime motive of these Government banks in England in fixing the rate of discount to fix it higher than the stock banks so as to invite gold to come in? Of course, they would not fix it lower, and they fix it higher because they have a certain object in view in making it higher. In other words, their function is always to raise the interest rate instead of to reduce it.

Mr. SHIBLEY. Those central banks in Europe have absolutely controlled the price level within their respective countries; that is, the interest rate for money has been kept from going as high as it might otherwise have gone. In other words, a unified control of the purchasing power of money is absolutely essential.

But in the United States the private money lenders have and do control the interest rate for money through their control of the volume of money; at times the President of the United States, through his Secretary of the Treasury, has temporarily controlled the money market by taking money from the Government's treasury and putting it into the banks, or by directing that the money on its way to the Government Treasury shall be retained in the banks. Also, under this general system, the foreign Governments and foreign bankers have controlled at will our money market, thereby controlling our stock market and the price level.

In no other great country except the United States has the welfare of its people been left to the discretionary power of the money lenders of the world. But under the new power that is controlling our Government, the progressive Democracy, there is about to be established, I believe, a unified control of the price level. The provision is incorporated in section 15 of the Owen-Glass bill, as I have said.

Senator NELSON. Let me set you right about that. Let me call your attention to the fact that the bill as it passed there has eliminated that provision.

Mr. SHIBLEY. I am coming to that.

Senator NELSON. They have eliminated that provision that you quoted.

Mr. SHIBLEY. The House Committee on Banking and Currency has approved the plan for a unified control of the price level, which the House caucus has adopted, and so has the House. Evidently the time has come when the greatly needed unified control of the price level in this country is to be established.

VI.

Next, I desire to lay before you the reasons why the unified control of the price level in this country should be in the people's Government and not in the bankers and why stability in the purchasing power of money should be maintained.

The reason why the people's Government should control the price level is experience demonstrates that the self-interest of the bankers is promoted by an increasing purchasing power for money, except as the ensuing depression injures them. On the other hand, ex-

perience demonstrates that the self-interest of the people, through their Government, when that Government really reflects the people's will, is for stability in the purchasing power of money, and therefore the people, through their Government, should control the purchasing power of money. In other words, the control of the purchasing power of money, the standard of value, should be in the Government, thereby representing the interests of society as a whole, and not a special class, as is the case where the bankers control the purchasing power of money.

That the principles that I have named actually exist among us I shall now demonstrate. First, I will show by analysis the importance of stability in the purchasing power of money.

Money is used as a medium of exchange and thereby becomes a common denominator or measure of value in terms of which we estimate the value of other things. Money is also a measure of value for deferred payments and for the performance of other obligations in the future; for example, the payment of street car fares and other prices fixed by law, and the payment of prices which, under established custom, remain stationary year after year.

It follows that the purchasing power of money should be kept as stable as possible. An appreciating money—that is, falling prices—robs the debtors and also such of the business men as are in lines of business whose prices are fixed by law or custom. Furthermore, falling prices for commodities cause business men in the pursuit of profits for themselves to discharge more and more of their help because of lack of orders for goods. This "running-down" process continues and increases in proportion to the length of time that falling prices continue. Therefore it is clear that a fall in prices for commodities taken as a whole is injurious to society.

On the other hand, rising prices for commodities taken as a whole stimulates production and give to the business men a large profit at the expense of the people whose wages and other forms of income do not increase as rapidly as do the prices of the things they must purchase.

Senator NELSON. You should have presented that view before the tariff bill passed.

Mr. SHIBLEY. This condition is known as "the high cost of living," the condition being that wages do not rise, on the average, as rapidly as do the prices of the things which the business men sell and the wage earners must buy. Thus something like nine-tenths of the people lose through the high cost of living, while the other one-tenth of the people reap an undeserved profit, due to the increase in the volume of money and credit which produce the rising prices for commodities taken as a whole.

The proper thing for the people's representatives to do is to provide a system whereby the purchasing power of money shall be kept stable. With such a purchasing power of money year after year the wage earners would be benefited and the business men would be treated fairly.

Now that the Department of Labor in the Federal Government is regularly measuring the purchasing power of money and a national board will be determining from week to week the interest rate whereby the purchasing power of money will be determined, the inevitable result will be that the national board will be compelled to

so control the interest rate that it will maintain stability in the price level.

Senator CRAWFORD. Right there——

Mr. SHIBLEY (interposing). May I not go on?

Senator CRAWFORD. Yes; I will not interrupt you until after you have finished.

Mr. SHIBLEY. Should the national board take steps that shall result in a 4 or a 5 per cent rise in the average prices for commodities, thereby robbing nine-tenths of the people in the interest of the business public, the result would be that the party leaders responsible for the action of the national board would be defeated at the direct primaries, or should that remedy fail the people they would defeat their enemies at the polls. The direct primary, combined with the other reforms in the system of government, has placed the people in power, and this fact, combined with the official measurement of the price level, insures that after a unified control of the price level is established in a national board, that board must so act as to maintain a practically stable purchasing power for money or be turned out of office.

These facts have not been laid before this committee, I believe, except as I have done so in Senate Document No. 135, of this Congress. But the facts are as I have stated, as anyone can see who during the past 20 years has been through the campaigns on the money question. Therefore the advice of the bankers to this committee has been such that if accepted and then be accepted by the majority in the Senate and by the administration it would result in their defeat in the forthcoming primaries or in the contest with the opposing party leaders.

Senator HITCHCOCK. You say the bankers' advice has been such?

Mr. SHIBLEY. Yes. The advice of the bankers to this committee has been such that if accepted by this committee there would be such an inflation that the people would not stand for it.

Senator HITCHCOCK. Because the standard is to-day based on the commercial paper?

Mr. SHIBLEY. No, sir; because the quantity is to be large, with no adequate methods for controlling it.

Senator HITCHCOCK. You are going to set forth how it should be limited?

Mr. SHIBLEY. Exactly.

The bankers are principally members of the opposing reactionary party, and therefore would be delighted to see the progressive Democratic leaders defeated provided the reactionary party leaders should be placed back in power.

Furthermore, the professors of economics in our American universities who have appeared before you have all advocated that the law should not place in the people's Government the control of the purchasing power of money. It follows that in proportion as their advice is accepted the result would be that the bankers would control the purchasing power of money, which would result either in undue contraction or undue expansion, depending upon whether their interests should be greatest in the trusts and other business affairs or greatest as creditors, as were the conditions when silver was surreptitiously demonitized. Whichever course the bankers would take

the result would be that the people would be injured and protect themselves at the next primaries, or failing to defeat there the men who were responsible for their miseries, would defeat them in the general election.

That I am not crediting the people with greater acumen and political power than they really possess I refer you to the remarkably effective nonpartisan campaign for reforms in the system of government, through the systematic questioning of candidates and the publication of their replies, so that the voters have been able to protect their interests. That same system can be applied to oust from office such of the party leaders now in power as shall fail to really represent the people.

It is clear that I am speaking of an actual political condition and not a theory. Already 2,000,000 of the wage earners of the country are organized in a single dues-paying nonpartisan organization, the American Federation of Labor, which would constitute one of the strong elements should it become necessary to take action to secure stability in the purchasing power of money. The day is here when conditions are such that the people of this country are in a position to absolutely protect themselves.

Fortunately, too, this Senate committee, the Senate, the administration and the House of Representatives can be depended upon to provide the needed stability in the purchasing power of money without being forced to do so. The progressive democracy is in power. Presently I will lay before you proof showing that the progressive Democrats in the year 1900 declared for stability in the purchasing power of money and pledged themselves to establish the needed mechanism. Before taking up this subject, I desire to present further proofs as to the need for Government control of the purchasing power of money, and the need for placing in operation an effective system for establishing and maintaining real stability in the purchasing power of money.

In outline I desire to lay before this committee the history of the instability in the price level since 1873 and the causes which produced the fluctuations.

In 1865 an international monetary conference was held, the countries represented being those of the Latin Union—those using the franc system—France, Italy, Belgium, Switzerland, and Greece. A proposal to adopt the gold standard was discussed but was not carried.

Early in the same year, 1865, the English officials of the Indian government proposed to close the Indian mints to silver and make gold the measure of value.

These proposals in Government circles to demonitize silver were partly the result of the rising flood of gold from California and Australia, which caused some of the creditor class to fear that the purchasing power of money would be depreciated.

In 1867, two years after the international conference of the Latin Union and of the proposed closing of the Indian mints to silver, another monetary conference was held at Paris, known as the International Committee of 1867. Senator John Sherman, chairman of the Finance Committee of the United States Senate, appeared in Paris, not as a member of the committee, but, as subsequent events

showed, to influence its action toward the demonetizing of silver. He came there after having visited the headquarters of the creditor class in London. In a letter written at his hotel in Paris at that time to our delegate, Mr. Ruggles, of the International Committee, he said:

> France will surely abandon the impossible effort of making two standards of value. Gold coins will answer all the purposes of the European commerce. (S. Doc. No. 14, 40th Cong., 2d sess., pp. 107–110.)

This letter was presented by our delegate to the Emperor, Louis Napoleon, and to the International Committee. Shortly afterwards the Government of France sent out invitations to the several Governments of the world asking them to appoint delegates to a more authoritative conference concerning the unification of coins. Delegates from 20 Governments met in Paris on June 17, 1867, and constituted the International Monetary Conference of that year.

That conference considered and voted not only upon the unification of coinage but upon the all-improtant question of the volume of money. The conference voted to adopt—

> the exclusive gold standard, leaving each State at liberty to keep its silver standard temporarily. (S. Doc. No. 14, above referred to.)

This was in 1867.

Thus, delegates who were appointed to plan for coins of like weight and fineness decided at once that the volume of money should be largely decreased through the use of gold alone. The conference did not discuss in public nor for publication in the record of the proceedings the probable effect of destroying the two-metal standard—bimetallism—and ultimately demonetizing silver, leaving the world a volume of money made up of gold alone except as supplemented with paper money.

Thus was accomplished the first great step in one of the most horrible conspiracies against mankind which the world has ever witnessed. The subsequent history of the periods of falling prices for commodities bears out my assertion.

Senator HITCHCOCK. What year do you start?

Mr. SHIBLEY. 1865 to 1867. In 1867 they declared for the demonitizing of silver. As is usual with conspirators against humanity, the representatives of the creditor class declared to those whom they were deceiving that their aspirations were "enlightened and benevolent." And the concluding remarks at the conference were:

> We are all animated by the true spirit of civilization and modern progress.

With this cry they went forward to secure plunder by increasing the purchasing power of the standard of value; that is, lowering the general prices of commodities and thereby increasing the value of credits.

There was no excuse for demonetizing silver, as subsequent events demonstrated, for it was known that the United States, Italy, Russia, and Argentina were on a paper basis and would soon endeavor to get their price levels down to a point where specie would flow in and large quantities of specie be then attracted from the other countries.

The most hurtful results from falling prices are that they produce industrial depression, which includes the nonemployment of labor, strikes, and in many cases real civil war.

In 1868, at the meeting of the next Congress of the United States, Senator John Sherman introduced a bill in relation to the coinage of gold and silver "with a view," the bill recites, "to promote a uniform currency among the nations," but in enumerating the coins to be minted in the United States the bill stated that "the coinage of silver pieces of $1, 5 cents, and 3 cents shall be discontinued."

Here was the first open attempt to demonetize silver in the United States. It was in 1868. The bill was reported favorably, and Chairman Sherman wrote the report urging its adoption, but he nowhere raised the question of stability in the purchasing power of money. Yet two years before in a speech he had declared: "To contract the currency" is to produce a "strain upon the people," and "cripple the industry of the country." (John Sherman's Recollections, vol. 1, pp. 380, 382.)

In Germany in 1868 at a German commercial convention a resolution was adopted to secure monetary unity in Germany, and upon—

the single-gold standard in pursuance of the principles recommended by the International Monetary Conference of Paris in its report of the 6th of July, 1867. (Silver in Europe, by Horton, p. 238.)

In France the Government appointed a commission to take evidence on the money question and report.

Also, in 1868, in Scandinavia, a movement was started to change their money from silver to gold. (Horton, p. 238.)

In the other nations represented at the conference of 1867 there was doubtless an active propaganda for the gold standard along the same line as in Germany, the United States, and the Scandinavian countries. In 1869 the French monetary commission took evidence and reported the same year. In the official summary of the argument set forth by those who wished to demonetize silver, it was stated that "the tendency of the two metals is to depreciate." This false statement of fact was not exposed, although in the testimony before that French commission there is a statement by M. le Baron de Rothschild that "If we should demonetize silver and our example should be followed by other nations," it "would amount to a veritable destruction of values without any compensation." (Reprinted in U. S. Monetary Commission report of 1876, p. 16.)

But this international conspiracy went forward, and as the governments of the world were in the hands of the unscrupulous few, who operated by means of "machine rule" party government, the people were powerless. The things that took place detrimental to the public interests were, in brief, as follows:

In 1870 in England the power of the Crown to reopen the mints to silver, provided the Privy Council should join in the proclamation, was surreptitiously taken away. A bill was brought in to revise the mint law and the power of the Crown was stricken out, yet when the bill was up for passage no mention of the great change was made—at least nothing appears in the debate reported by Hansard. (Vol. 199, col. 730.) Again, in the house the members were assured that the object was simply to perfect the mint law; and the same false statement was made in the House of Lords. The facts in detail have been stated by Alexander Del Mar and reprinted in my book, The Money Question, pages 293, 294.

In the United States the same trick was played that had operated so effectually in the British Parliament. Twenty-four days after the

revised mint law of England was passed John Sherman introduced in the Senate of the United States a bill of 71 sections compiling fully all the laws relating to the mint, assay offices, and coinage, and in one of the sections the silver dollar was dropped from the list of coins to be struck at the mint. The statements in connection with the bill concealed the fact.

Senator HITCHCOCK. What year was that?

Senator NELSON. 1873.

Mr. SHIBLEY. This was 1871.

Senator NELSON. I thought it was 1873, "the crime of '73."

Mr. SHIBLEY. We are coming to that, Senator.

The bill was referred to the committee of which Mr. Sherman was chairman, and he reported it favorably with an amendment. When the bill came up in Committee of the Whole no mention was made of the vital change. On the final vote Senator Sherman voted against the bill, but he knew it was going to pass, the vote standing: Nays, 14; yeas, 36.

In the House the bill was referred to the committee on coinage, which reported it back with an amendment in the nature of a substitute, and the bill was not heard from again at that session, which ended seven days later.

That same year in Germany a bill became law which provided for the free coinage of gold and that large silver coins, corresponding to our silver dollar, should no longer be minted. The law further stated that it was the intention to retire in the future the large silver coins from circulation. Thus the free coinage of silver in Germany was terminated. The plan was to retire the silver coins from circulation as rapidly as possible.

The same year, 1871, a Swedish monetary commission advised the adoption of the gold standard.

That same year, also, Japan enacted a law giving to gold unlimited coinage along with silver, but at a ratio such that only gold would enter the mints.

In the United States this same important year of 1871, in the new Congress, a revision of the mint law was again attempted; and again the same trick of dropping out the silver dollar from the list of coins given free coinage was attempted, but it failed. Hon. Clarkson Potter, of New York, pointed out that an attempt was being made to substitute as legal-tender money the "coin of only one metal instead, as heretofore, of two." (Cong. Rec., 1871–72, pt. 3, p. 2306.)

The opposition to the proposal was so strong that the leaders in power declared that they would abandon the project and brought in a so-called substitute which it was attempted to put through without being read. It was finally decided, so the Congressional Record shows, that the bill should be read. It finally became law; but not until three years later did Senator Conkling, of New York, learn that the free coinage of silver had been terminated by that law, because at that time the country was on a paper-money basis. The Congressional Record of March 30, 1876, contains the following statement by Senator Conkling:

> Will the Senator [Bogy] allow me to ask him or some other Senator a question? Is it true that there is now by law no American dollar? (p. 2062.)

Further evidence showing that leading statesmen in the nation did not know of the demonetization of silver until years after is set forth by me in The Money Question, pages 302, 303. The President who signed the bill, President Grant, did not know that the bill demonetized silver. Proof of this is the fact that eight months after he signed the bill he wrote a letter to Mr. Cowdrey, which clearly shows the fact that he did not know that the law for the free coinage of silver had been repealed. The letter is in McPherson's Hand Book of Politics for 1874, pages 134–135.

Two years after the surreptitious demonetization of silver by the "machine rule" Congress of the United States, another Congress of the same character, representing the people's enemies and their oppressors, surreptitiously provided that specie payments should be resumed in one metal alone, gold. The bill was handled in "machine-rule" fashion, there being no hearing and not even an opportunity in Congress itself for the Members to learn what was in the bill. In discussing the bill Senator Bogy, of Missouri, impliedly assured the Members of the Senate that both silver and gold were to be the basis for specie payments in 1879. His words are:

> Gold and silver are the only two measures of value, not only here, but throughout the world.

The balance of his remarks show that he did not know that the mints were to be closed to the unlimited coinage of silver. (Congressional Record, Dec. 22, 1874, p. 200.) The bill was put through the Senate the same day that the Members received the printed bill. In the House it was rushed through in two days and the Members did not know that silver was demonetized. (Congressional Record, Dec. 23, 1874, Jan. 7, 1875, p. 229.)

This closes my outline of the way the American people and the people of the entire world were tricked in the demonetizing of silver. I have stated it for several reasons, first, because a somewhat similar trick is being attempted here in this Senate committee. The bankers of the country and their experts are endeavoring, through concealment of important facts, to get this committee to consent that the bankers shall control the 12 banks of issue that are provided for in this bill. This bill provides that six of the nine members of the board of directors of each of the 12 banks of issue are to be elected by the bankers.

This proves that the proposal is that the bankers shall control the banks of issue that are to regulate the interest rate and put forth the paper money, also determine the amount of gold that shall exist in our circulation, there being, however, a veto power as to certain matters in the national board which is to represent the people. But the administration bill has been shorn of important features by the Democratic House committee. The exact facts in this connection I will take up in due time in my remarks.

The second reason why I have presented this history of silver demonetization and the resulting outrage on humanity is to point out that the larger part of the university professors in economics in Europe sided with the people and told them the facts, but not so in this country, because our university system was such that the only pro-

fessors in economics who could hold their positions were those who sided with the creditor class and the plutocratic government. Today the same university system prevails, except in Wisconsin and possibly a few other Western States a declaration for academic freedom has been made; but not one of the professors of economics in these universities has seen fit to aid Congress and the administration in securing for the people the proper solution of the currency question. If I am in error, I shall be glad to be corrected. I recite these facts that this committee may know the exact facts in determining the reliability of the testimony in these hearings.

Now, as to the history of the control of the money market and price level in the United States by the bankers and foreign Governments, I invite your attention to additional facts showing the imperative need for standing by the proposal of the chairman of this committee and the proposal of the administration, that the people through their Government shall control the purchasing power of money and that the aim shall be to promote stability therein.

What I propose is to briefly prove to you just how the purchasing power of money in our great country has been controlled by the powerful speculative banks of the country, except as foreign bankers and foreign Governments have interfered or as the President of our country has interfered.

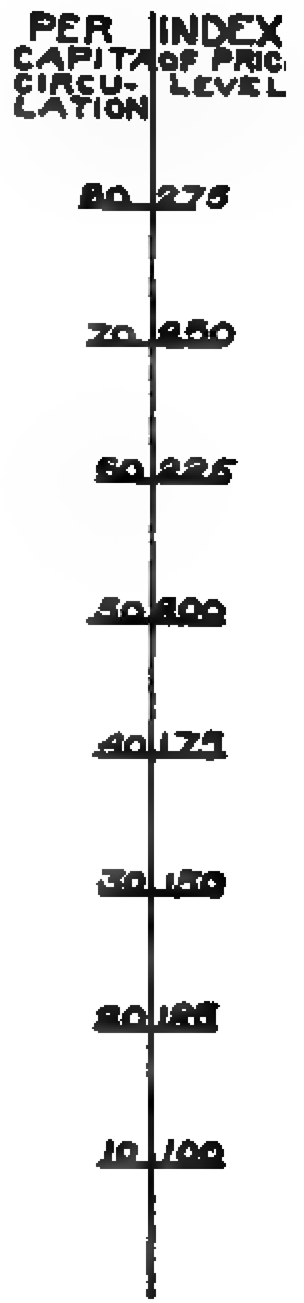
The daily control of the money market in this country has been in the powerful speculative banks in New York City, except as interfered with by foreign bankers, foreign Governments, and the President of the United States. Usually the speculative banks have been in control of the money market, thereby determining the height of the price level for commodities and the prices for stock within narrow limits.

But the great foreign creditor class and the Governments of Europe have put forth lines of policy extending through months and even years, knowing weeks in advance just what the main plans were, thereby being in a position to buy and sell stocks and bonds with an absolute assurance that immense profits would result. In this way the immense fortunes of the banking class in Europe and the United States have largely been built up. The basis has been their power to control the price level in the United States and throughout the gold-standard world. Herewith is an outline of just what they have done:

The demonetizing of silver was brought about by the powerful creditor class, as I have pointed out. The ringleaders were the first to know where demonetization was taking place, and, accordingly, they were posted on the forthcoming trend of the price level. What actually took place in connection with that price level for the years 1873 to date is graphically set forth in a chart that I have had prepared showing the price level from 1782 to the present time, which I would like to have incorporated in the record.

The CHAIRMAN. Without objection, the chart may be inserted.

(The chart referred to is as follows:)


PER CAPITA CIRCU-LATION
INDEX OF PRIC LEVEL
80 275
70 250
60 225
50 200
40 175
30 150
20 125
10 100

This chart shows that there took place in the United States from 1865 to 1897 a terrific fall in the price level, except as occasional letups were brought by the bankers in Europe, whose action I will now proceed to describe.

The policy of contraction was pursued by the ruling power in Europe until the year 1879.

Senator REED. What year?

Mr. SHIBLEY. 1879. At that time the people in the United States had become so aroused and so wise as to the cause of the depression that the foreign bankers saw that there would have to be a temporary let-up or the people would get control of the Federal Government.

Accordingly, during 1879, the Imperial Bank of Germany began inflating with paper money, as also did the Bank of France; and these two national depositories reduced their coin reserves, as did the Bank of England.

The amount of these reductions in the gold hoards is stated in the New York World, December, 1879, at $104,000,000, and the paper circulation in Germany and France increased $72,000,000.

Senator HITCHCOCK. How could the Bank of England reduce these reserves by reducing their interest?

Mr. SHIBLEY. The reserve was lower.

Senator HITCHCOCK. The notes are issued against the gold, and the only way she could reduce her reserve would be to lower the rate of interest.

Mr. SHIBLEY. It might be that way, or it might remain stationary. But the gold reserve was reduced to the amount of $104,000,000, and paper money was issued to the extent of $72,000,000.

The price level in Germany for the last six months of 1879 rose 3 per cent on the average (Soetbeer's Table of Prices; for the same period of time the average of prices in England rose 2 per cent Sauerbeck's Table of Prices), and gold flowed to the United States. During the last five months of 1879 the amount of gold poured into the United States was $78,000,000 (Appleton's Annual Cyclopedia for 1879, p. 370), while for the preceding year the net amount of gold imported into the United States had been but $1,000,000.

With this increase in the volume of money in the United States, combined with the increase from the silver purchase law of 1878, the price of products rose, and with rising prices there came, as usual, prosperity to the producing classes.

Senator WEEKS. Do you not think the shipments of gold to the United States at that time were to make effective the resumption of the specie payment act, and that our Government had nothing to do with the bringing in of that gold?

Mr. SHIBLEY. Our Government had nothing to do with the reduction of the gold reserves in Europe and the issuing of paper money in Europe.

Senator WEEKS. It had to come from some place, and they had to supply the circulation.

Mr. SHIBLEY. The European bankers and Governments raised the price level of the gold-standard world by reducing the gold reserve and issuing paper currency, and the result was an inflation of bank credits and a rise of prices, just as is shown in the Table of Average Prices.

Senator CRAWFORD. I agree with you in this, that gold is an international money, and an international standard of value, but, unless we abandon our basic money, how in the world is a reserve board going to control the value of the international money standard of the world, especially when we are an exporting Nation, and the price of our commodities is fixed largely by the foreign markets? There you have commodities sold at the prices fixed, world-wide, and you have an international monetary standard prevailing everywhere; and how in the world is a reserve board going to fix the control of these prices as expressed in this international monetary standard?

Mr. SHIBLEY. I have shown you how the foreign Governments of Europe have been controlling it, controlling the volume of money, and our proposed national board, if given sufficient authority, can maintain stability by retiring paper currency whenever necessary and make a place for gold. We can do for the world of our day what France did for the world under bimetalism. We should so control the volume of money as to maintain stability.

Senator CRAWFORD. But you say that France and Germany and England played the game and sent gold over here at this critical period, but I do not see, if they were so committed to it, how, if such a theory can be maintained, that they pursued an opposite course in establishing paper-money value.

Mr. SHIBLEY. I have said that in 1879 the people of the United States were about to get control of their Government, unless falling prices and depression should be terminated, and the creditor class set about to protect themselves, and they succeeded.

The CHAIRMAN. I think you had better proceed.

Mr. SHIBLEY. In the national election of 1880 the candidates of the party that championed the system under which the falling prices had occurred were elected. The party which had fought against the falling prices of the preceding years was defeated, and the following reason for it was assigned by President elect Garfield in a letter to John Sherman:

> The distrust of the solid South and the adverse financial legislation have been the chief factors in the contest. (John Sherman's Memoirs, p. 789.)

In France and Germany there was the usual prosperity which results from an increasing volume of money and rising prices. But the bankers and the other beneficiaries of fluctuating prices and falling prices so controlled the press and other sources of knowledge that the people were led to believe that the cause of the prosperity was the recently enacted protective tariff, whereby the prices of agricultural produce had been raised. These protective duties in France and Germany had been levied to appease the land-owning element, and the people were led to believe that the falling prices of the preceding years were due to competition and not to a decreasing volume of money.

In England, with its free-trade policy, a different excuse was foisted on the public.

During the three years 1879 to 1882, inclusive, the per capita circulation in the United States increased 40 per cent. (U. S. Statistical Abstract.)

Senator REED. During what period was that?

Mr. SHIBLEY. From 1879 to 1882.

Senator HITCHCOCK. What was the increase?

Mr. SHIBLEY. Forty per cent in three years. I refer to the United States Statistical Abstract for the figures.

But the prosperity for the producing classes was short lived, for in Europe paper money was withdrawn and the gold hoards were increased. The dominant power in Italy and other European countries purchased gold for use as money. This contracted the volume of money and tended to produce falling prices and hard times. The Bankers' Magazine, of New York, for July, 1884, in an editorial on "The monetary circulation" set forth that for the year the increase in monetary circulation within the country had been only $10,000,000, whereas the expansion of population was such as to call for at least $40,000,000, if the price level was to be maintained.

Falling prices continued throughout the gold-standard world. Commissions on the depression of industry were appointed. In England such a commission reported to Parliament in 1886 and called attention to the falling price level and the broken par of exchange with silver-using countries, and asked that a special commission be appointed to examine into the matter.

Senator REED. Did it occur in England at the same time it occurred here?

Mr. SHIBLEY. At the same time, for the gold standard of prices is international. In England a gold and silver commission was appointed. It began taking evidence November 12, 1886, and the beneficiaries of falling prices were not slow in recognizing that something must be done to relieve the depression for a time or the public would demand a change in the monetary system. Accordingly the volume of money in Europe was so increased that for 1887 the net import of gold into the United States was $33,209,414, whereas for the preceding year the exports of gold from the United States had exceeded the imports by $22,208,842. The rise in prices in the United States for 1887, averaged seventh-tenths of 1 per cent. The next year the net import of gold into the United States was $25,558,000 and the rise in general prices was $1\frac{1}{8}$ per cent. In England the rise in general prices for 1888 was 3 per cent, and probably about the same in the other gold-price countries.

The effect of rising prices was to again set in motion the wheels of industry in all the gold-price countries.

During 1893 and 1894 there were severe falls in the price level, with a proportionate disorganization of industry. This disorganization in the autumn and winter of 1894–95, caused by stringencies in the money market, was brought about by those who were attempting to secure the retirement of the greenbacks and place in the bankers greater power to issue the paper currency.

But the efforts to retire the greenbacks were unsuccessful; and, in order to stem the rising tide of discontent with the falling prices and hard times and the growing favor accorded to the remedy of free silver, there was in Europe an inflation of the volume of money and credit and a partial restoration of prices throughout the gold-standard world.

In the contract with President Cleveland for gold it was agreed that $31,000,000 in gold should be imported and no gold exported

before October, at which time it would be needed to move the crops, and shortly afterwards the German Government began issuing paper money through the Imperial Bank, reduced its coin reserve, and expanded its credits. In this way the German Government increased the volume of money in use $101,000,000 by October 1; credits were expanded in all countries and, of course, prices rose. In England the rise in prices of products averaged 5 per cent, and in the United States from January 1 to July 1 the rise was 8 per cent.

But the restoration of good times for the producing classes did not last over the presidential election, owing to the action of the Russian Government. About July 1 it reached out and at one fell swoop took from the market $79,000,000 in gold and placed it in its war chest. The "shiver" which this produced throughout the entire gold-standard world is chronicled in the daily press. The rise in prices was checked, and they began to fall in October and continued falling, with only slight reactions, all through the ensuing months and up to the presidential election. Owing to the falling prices and hard times the representatives of the producing classes were able to capture the Democratic organization and make a fight against contraction and falling prices. So close was the contest that a change of 20,000 votes properly distributed would have elected their presidential nominee, William Jennings Bryan.

During the year 1896 and the first six months of the following year the Governments of western Europe, Russia, and the United States withdrew from circulation more than $200,000,000, thus more than offsetting the increase in the volume of money from the gold mines. As the population of the world was increasing and the volume of money did not increase prices continued to fall. But the industrial conditions were again so "hard" that a measure of prosperity had to be restored to the producing classes or the Governments would pass into the hands of their representatives.

Accordingly we find that gold hoarding in Europe practically ceased, thus permitting the stream of new gold to increase the volume of money. At the same time the output of gold increased throughout the world and these facts, together with the gold discoveries in the Klondike, led people to believe that falling prices were stopped for a time, and that the usual inflation of credit and prices would follow. And such was the case.

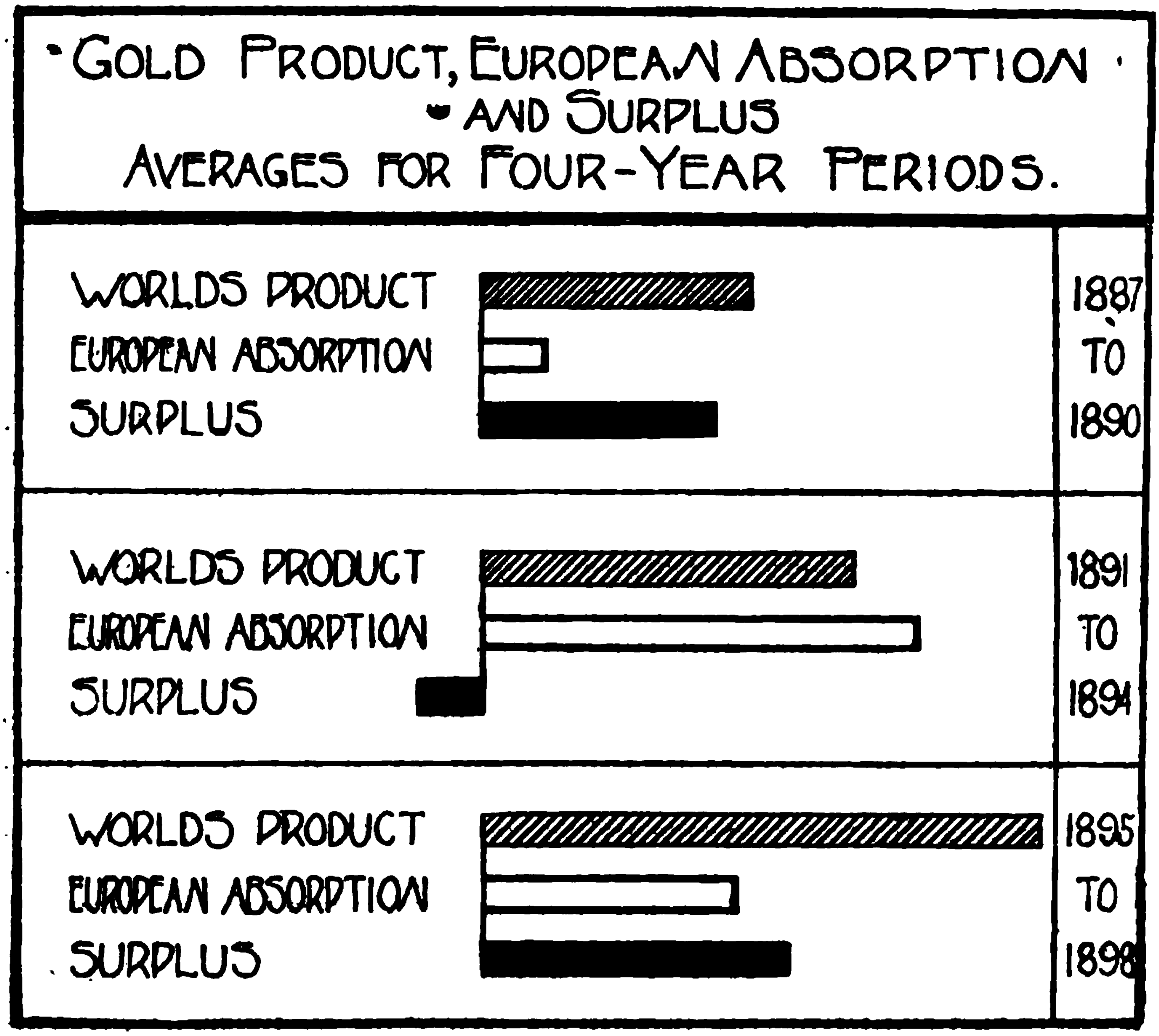
During all this time the people of the United States and of the other great countries were practically helpless, for there was almost no self-government by the people, although men voted, the will of the voters being defeated through a system of machine-rule party government.

I desire to place in the record a chart prepared by Prof. John R. Commons, and published in 1900 by the Bureau of Economic Research. It shows in graphic form how, during the years 1891 to 1894, inclusive, the European absorption of gold was such that not only was there nothing for the United States from the gold mines but that even some of the gold we then had was taken from us. Then the European bankers and governments changed their policy so that the circulation in the gold-standard world received accessions from the mines and prices rose and industry was stimulated.

The CHAIRMAN. Without objection, the chart to which you referred will be put into the record.

(The chart referred to is as follows:)

CHART II.



NOTE IN CONNECTION WITH CHART II.

1. *1887–1890.*—During the four years ending with 1890 the gold product of the world averaged $115,000,000 per year. Of this amount Russia, Austria-Hungary, France, and Germany absorbed, through home production and net imports, $25,000,000 per year, leaving $90,000,000 per year, or $360,000,000 *for four years, for the arts and other countries.*

2. *1891–1894.*—During the four years following 1890 the world's average product of gold had increased to $154,000,000 per year, *but these four countries increased their absorption more than sevenfold,* reaching the average of $180,000,000 per year, *thus taking not only the* ENTIRE *product of the period* BUT $26,000,000 PER YEAR IN ADDITION. This not only left nothing for the arts, which therefore had to draw from the world's stock, BUT ALSO DRAINED $100,000,000 IN FOUR YEARS FROM OTHER COUNTRIES.

EFFECT IN UNITED STATES.

This extraordinary absorption of gold by these continental countries *explains the loss of gold by the United States, a loss which was offered as an excuse for repealing the Sherman Act,* WHICH WAS ADDING TO THE VOLUME OF MONEY, whereas, in the first period, 1887–1890, above mentioned, the United States imported $80,000,000 net and produced $130,000,000, *making a net absorption of* $210,000,000, yet in the period 1891-1894 the United States exported $160,000,000 net and produced $140,000,000, *suffering a net loss of* $20,000,000. The net exports were about equal in amount to the Treasury notes issued under the Sher-

man Act. Had this gold, when it went abroad, gone into circulation, it would have increased the money supply of Europe, and would have kept up gold prices, just as was done by American gold in 1861–1865, when driven to Europe by paper money at home. As soon as prices had risen, this would have checked the export of gold from this country. *But, instead, the gold went out of circulation,* BEING ABSORBED BY THE THREE LEADING EUROPEAN POWERS, AND GOLD PRICES FELL 15 TO 23 PER CENT IN SIX YEARS. There was a scarcity of gold, because these four countries took not only the entire gold output, but also a large part of that exported from the United States, and locked it up in war chests and treasuries or substituted it for paper money. Russia alone, in 10 years ending 1897, took $500,000,000 in gold and destroyed $500,000,000 of her paper money. Austria also displaced paper with gold, and France, Germany, and England, in order to protect themselves, increased the gold reserves in their State banks far beyond what had been known before. From December, 1889, to December, 1897, the gold held by the five State banks of the leading countries increased from $830,000,000 to $1,382,000,000, an increase of $550,000,000. At the same time notes and deposits increased from $2,312,300,000 to $2,548,900,000, an increase of only $236,600,000. In other words, while in 1889 the gold reserves of the five State banks amounted to *36 per cent of the notes and deposits*, in 1897 the gold reserves had been increased to *54 per cent of the notes and deposits.* The greater part of these increased gold reserves was, therefore, just so much extracted from commercial use and in effect represented to that amount *a contraction of the world's currency.*

Beginning in 1897 exactly the opposite movement occurred:

3. *1897–1900.*—In that year Russia finally adopted the gold standard and began paying out gold for paper. She continued, indeed, her heavy importations into the country, but the gold in her treasury fell off $300,000,000 from December, 1897, to September, 1899. Altogether the gold held by the five principal banks decreased $164,000,000 in the 21 months from December, 1897, to September, 1899. *This is equivalent to an increase in the world's available gold supply of $95,000,000 per year.* During this year the notes and deposits remained practically stationary, and the ratio of gold reserves fell from 54 per cent to 44 per cent.

At the same time a new factor appeared and began to augment still further the gold supply. This was the enormous increase in the world's production of gold. The product of 1897 was double that of 1890; the product of 1898 increased $50,000,000 above that of 1897; and the product of 1899 amounted to about $315,000,000, which was an increase of $200,000,000 per year above the average product of 1897 to 1890. This astonishing production of gold, coupled with lessened absorption by the four continental countries, left a large surplus for other countries. The surplus in 1895 was $125,000,000, whereas there had been an average deficit of $26,000,000 for the four years preceding. The surplus in 1896 was $90,000,000; in 1897, $80,000,000; in 1898, $203,000,000. The average surplus of these four years (1895–1898) was $124,000,000 per year, against an average deficit of $26,000,000 per year for the preceding four years. (See Chart II.) This explains the absorption of gold by the United States, which in 1897 was $102,000,000 and in 1898 $169,000,000, against a loss of $26,000,000 in 1896, and a loss of $160,000,000 in the four years from 1891 to 1894.

However, in the trust era of 1897 to the present time the restrictions were such that the wages of the people did not increase as rapidly as the price level rose, and the result was that real wages were lessened, with a corresponding increase in the profits of the business men.

Senator POMERENE. Is the Prof. Commons to whom you have referred Prof. Commons, of Wisconsin University?

Mr. SHIBLEY. Yes, sir. That is "the high-cost-of-living" problem. The causes of the high prices are largely the rising price level plus the trusts and the monopoly tariff. The tariff has been satisfactorily dealt with by the progressive democracy, and now the currency law should provide for stability in the price level so that the wages of the country can catch up and become normal. That condition ought to be attained during the coming two years. If the Democratic

leaders fail, then they should be turned out of power and another set of progressive leaders be placed in charge of the Government. The people are patiently waiting to see what the leaders in power will do. The extortions from the high cost of living are being endured patiently, but if relief is not forthcoming the voters will make a change.

Senator NELSON. Could we reduce the cost of living by reducing the volume of currency?

Mr. SHIBLEY. We have to maintain stability, whatever may be required. At times it will mean expansion and at times contraction.

Senator CRAWFORD. Do you propose to change this basic gold by putting more grains of gold into it?

Mr. SHIBLEY. I am coming to that in just a moment. I am going to deal with that.

In tracing the control of the price level in the United States by the foreign bankers and foreign Governments plus the increase in the output from the gold mines we had reached the year 1900. On March 14, 1900, a law was enacted by the trustocracy providing for an immense inflation by paper money on top of too much gold.

Up to that time the creditor class had been a balance of power in the "machine-rule" party government of the United States and so had prevented the passage of any law tending to increase the volume of money and thus depreciate the purchasing power of debts.

Senator REED. What is that law you referred to?

Mr. SHIBLEY. The law of March 14, 1900; the law which produced $500,000,000 of bank paper on top of too much gold. It is called the gold-standard law by its friends.

Senator NELSON. I did not understand it provided for the issue of more paper currency.

Mr. SHIBLEY. $500,000,000 came out under it, as I will now describe.

Senator NELSON. That was under the silver-purchasing act.

Mr. SHIBLEY. It was under the law of March 14, 1900, which is sometimes called the gold-standard law. Six weeks after that law was passed I went into the Wall Street district and asked the bankers how much expansion would come from this law, and they told me. "Well, it may be $100,000,000 or it may be $500,000,000."

Senator NELSON. The paper was issued on the basis of silver dollars?

Mr. SHIBLEY. The money I am referring to is bank notes.

Senator HITCHCOCK. It made it more advantageous for national banks to issue their notes?

Mr. SHIBLEY. Yes; and they issued $500,000,000 on top of too much gold.

Senator HITCHCOCK. The law raised the percentage from 90 to 100?

Mr. SHIBLEY. Yes; and I will show you that while the trustocracy was doing this the progressive democracy declared for stability.

I was showing how the creditor class were under foot in 1900. Under the trust development a new era was reached, and the creditor class was ousted from its being a balance of power, and inflation was provided for, even though the volume of gold was sufficient. The great difficulty, however, was that a temporary recession of prices had set in and the bond-secured currency could not be made elastic in volume. Accordingly provision was made for a large increase in

the volume of bank money. I use the term "bank money" advisedly, for the so-called national-bank notes are real paper money, being a legal tender for certain purposes, and I now quote the exact words of the statute, that they may appear in the record. The wording is as follows:

> The notes shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and other dues to the United States except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States except interest on the public debt and in redemption of the national currency (R. S., sec. 5, 182).

also every national bank is compelled by law to accept those national-bank notes. (R. S., sec. 5, 195.)

Senator NELSON. Were the notes issued by the national hanks notes issued in place of the silver——

Mr. SHIBLEY (interposing.) No.

Senator NELSON. The only increase, as I recall it, was that instead of allowing them to issue on 90 per cent of the par value of the bonds they allowed them to take out an issue up to the full par value. That is my recollection.

Mr. SHIBLEY. Exactly. And so the volume of paper money increased from about $250,000,000 up to $759,000,000, on top of too much gold.

Senator HITCHCOCK. Do you recall whether, under the last law passed about a year ago, the national-bank notes may now be received for customs and taxes?

Mr. SHIBLEY. I believe not.

Senator HITCHCOCK. Certified checks can be used.

Mr. SHIBLEY. Might not that be as the result of an order of the Treasury Department?

Senator HITCHCOCK. No; Congress passed an act amending the act which made gold only receivable, and provided that certified checks should be made receivable, and I thought, probably, bank notes had been included.

Mr. SHIBLEY. I can not say.

Senator HITCHCOCK. I am not sure that it is so; I am asking you about it.

Mr. SHIBLEY. This paper money of which I am speaking was issued by the "machine rule" party government, and presented, almost as a gift, to the private corporations known as national banks, and these private interests have not even been obligated to redeem their paper money in gold, merely redeeming it in the paper money issued by the Government. This is on a par with the Government's action in supplying to these private corporations, free of charge, millions and millions of Government deposits, which when borrowed by the people have borne interest.

Senator HITCHCOCK. You realize that under the practice all bank notes are redeemed at the Treasury and are redeemable in gold or legal tender?

Mr. SHIBLEY. The law says they shall be redeemable in lawful money and can be redeemed in the paper money of the Government. No gold redemption has been obligatory under that language.

Senator HITCHCOCK. The statistics show that 87 per cent of the national-bank notes are redeemed every year at the Treasury.

Senator SHAFROTH. $600,000,000 last year.

Mr. SHIBLEY. In lawful money—paper money, redeemed in paper money. I am quoting the law which gave them the power, and did not even compel them to redeem it in gold.

But this has been done only by the "machine rule" party government, which was turned out of office in the elections of 1910 and 1912, and the people's interests are being worked for by the present Government, which has reduced the tariff, is charging 2 per cent interest for the Government's money that is deposited with the banks, and now in the bill before us there is a plan for stabilizing the purchasing power of money. I have quoted the provision for stability. In a moment I will prove that this proposal for honesty in the monetary system is not a new idea with the Democracy. I will do this after I have pointed out that the $500,000,000 inflation in paper money from the act of March 14, 1900, and subsequent acts, is one-twentieth of all the money in the gold standard world, and, therefore, the effect has been to raise the price level in the gold standard world about one-twentieth, or 5 per cent. In other words, the price level has been unjustly raised 5 per cent. This sly shifting of the purchasing power of the standard of value has been by the political leaders who, when the creditor class was in power served them, and prevented the people from putting a stop to the falling prices.

The evil effects from the 5 per cent depreciation in the purchasing power of money can be traced in outline.

Senator CRAWFORD. Do you think this inflation has been unduly favorable to the debtor class?

Mr. SHIBLEY. The inflation?

Senator CRAWFORD. Yes.

Mr. SHIBLEY. Certainly.

Senator CRAWFORD. You think it has been unduly favorable to the debtor class?

Mr. SHIBLEY. I do.

Senator CRAWFORD. You think that in the earlier years the creditors got more than they should have had out of monetary legislation, and then later on, with this inflation, the debtor class was unduly favored?

Mr. SHIBLEY. The political power shifted under the development of trusts. The trusts got what they wanted, and they got more money. They wanted prices for commodities to go up, and they did go up.

Tracing, in turn, the effect of the 5 per cent depreciation in the purchasing power of money, the $1,000,000,000 of national bank capital was depreciated 5 per cent, or $50,000,000. As between debtors and creditors as a whole in the United States, the unjust shifting of the purchasing power of the standard of value amounted to hundreds of millions of dollars, being a legalized robbery. Taking the entire gold-standard world as a whole, the extent of the unfair loss is almost unthinkable.

One of the worst results has been as to life insurance. In the United States along there is something like $28,000,000,000 of life insurance, laboriously paid for for the use of the families when the bread winners shall have passed on. The 5 per cent inflation by the trustocracy took from it 5 per cent of its purchasing power, amounting to $1,400,000,000—this was taken from the widows and orphans.

This huge sum was 1.4 times the immense war indemnity which Germany wrung from the entire French Nation. This for the United States alone.

Also, this 5 per cent inflation has robbed every man, woman, and child, and youth who has been earning wages. In this trust era, with artificial restrictions on every side, the wages have not gone up as rapidly as have the prices of the things which the wage earners have purchased. This is the "high cost of living" problem. Living has been and is high as compared with incomes. The losses to the wage earners of the United States from the 5 per cent inflation have averaged something like 1 or 2 per cent of the wage earners' incomes, probably, and this sly taking from the workingman's pay envelope has been going on for years, amounting in all to possibly a billion dollars for the United States alone. Through the inflation law the trust magnates unjustly transferred to themselves and to the other business interests a tremendous sum.

I have been speaking about the paper-money inflation in this country since March 14, 1900. If we consider the entire inflation since 1897 the losses to the wage earners of to-day is doubtless from 10 to 20 per cent of their incomes. That is the principal part of the high cost of living as compared with incomes. The incomes have not climbed as fast as has the average of prices for commodities due to inflation.

In England, in a report just issued by the Government on the "Working-class rents and retail prices," it appears that since 1905 wages in England have risen on the average only about one-half as much as have the cost of the things the wage earners purchase. Thus undue inflation through the volume of money robs the wage earners. This subtle system of robbery is one that the Congress of the United States can effectually guard against by simply inserting in the forthcoming law the rule that the aim of the monetary boards shall be to promote stability, and then providing them with sufficient authority to retire paper money.

Senator CRAWFORD. Then England has been on an inflation basis?

Mr. SHIBLEY. Yes; but England and the European countries have been helpless, because they have had to keep gold as a weapon of war. They have to get all the gold they can and hold it. The most they can do is to take to themselves just as much gold as they can get, and keep things while so doing as staple as possible. We, being away from the armed camp of Europe, can provide for stability, because one-third of all our money is paper, and if this bill will provide that enough paper money shall be retired to maintain stability, we can maintain it.

During the past 16 years the losses to the wage earners of the United States through inflation has amounted to billions of dollars, a sum so large that one can scarcely comprehend it.

The ones who got what the wage earners lost were the people who composed the business public, the ones who have been receiving profits. Profits in business enterprises have been increased by the unseen shifting of the standard of value. A trick, part of which was intentionally brought about by the trustocracy through the bank-money inflation. The $500,000,000 inflation has robbed the wage earners of probably twice or three times that sum, and the benefici-

aries of life insurance have been slyly robbed of about $1,500,000,000. In other words, for each dollar of inflation the widows and orphans have had filched from them three times as much, and it has gone into the pockets of the business world, while the wage earners and all others with practically fixed incomes have been robbed of probably $6 for each inflation dollar. The gold standard world outside of the United States has been equally wronged.

I want to add right here that Prof. Jevons, of England, a very conservative man, said that the great trouble has been paper-money inflation. He pointed out that when countries at war issued paper money in large quantities, they thereby drove metallic currency out of the country. We have been having the greatest trouble in the world from inconvertible paper money, followed by the retirement of enough of it to draw in large volumes of specie. Thus, through the alternate issuance and retirement of paper money, the greatest sudden changes in the volume of money have been brought about. The only proper way to do, now that a gauge for measuring the price level has been developed, is to use the gauge, and so control the volume of paper money in combination with the gold standard as to promote stability in the purchasing power of money. There ought not to be any attempt to automatically regulate the price level, as has been proposed to this committee.

Senator REED. You do not take any stock in the automatic business?

Mr. SHIBLEY. It is absolutely useless except as a limitation. Germany has something like 60 per cent gold reserve. France has more than 50 per cent, and the aim is to keep all the gold they can get, and when Germany tried to keep 33⅓ per cent, under the law of 1876, the time came in 1907 when she was unable to keep that, and because she had fixed a limit she went off the gold standard temporarily, and was an outcast in the eyes of the world.

Senator CRAWFORD. You charge that for a long series of years, down to 1900, the Government, with a sort of sinister purpose in view, legislated in favor of the creditor class?

Mr. SHIBLEY. Exactly. Within the "machine rule" party government the creditor class was the balance of power.

Senator CRAWFORD. Then the Government turned around in 1900, with a similar sinister purpose in view and legislated for the purpose of aiding the debtor class?

Mr. SHIBLEY. The trusts became the controlling power, and the principal aim, I believe, was to stimulate business and increase business profits.

Senator CRAWFORD. That is, the Government switched over and changed its exploitation, and directed it against the debtor class?

Mr. SHIBLEY. The trust element was so strong that it controlled the Government, thus assisting the creditor class.

Senator NELSON. The trusts ousted the creditor class?

Mr. SHIBLEY. Yes, sir.

Senator NELSON. That is strange; they are always supposed to be on the other side.

Mr. SHIBLEY. They are supposed to be. The creditor class was ousted in 1900 by that law.

Senator NELSON. I have looked through that law and the only inflation I can see in that law is that it allowed the national banks to issue currency up to the par value of the bonds. Before that it had been only 90 per cent. Is there any other inflation provided in that law?

Mr. SHIBLEY. I can not say without examining the law; and I simply point to the bill and the ensuing results. At present there is about $759,000,000 of bank money.

Senator REED. You hold that having given the banks the right to issue 100 per cent instead of 90 per cent, that that changes the situation in this way; that whereas they could not make much money by issuing 90 per cent, and therefore only issued the small amounts, that when that additional 10 per cent was added, then the whole issue became profitable and they issued the entire amount?

Mr. SHIBLEY. That is my understanding.

Senator REED. They tied up no part of their capital in doing it. so that is was not an addition merely of 10 per cent, but by adding the 10 per cent to their privilege, they then exercised the entire privilege, which previously they had not.

Mr. SHIBLEY. That is my contention.

Senator NELSON. As a matter of fact, the national banks have never issued all the circulation that they are entitled to.

Senator REED. I think that is true.

Senator NELSON. If you will look up the statistics, you will find that the smaller banks have, to a large extent, issued up to their capital—that is, the limit—while the great city banks in the reserve cities have only issued a limited amount. That is my understanding.

The CHAIRMAN. That is correct.

Senator HITCHCOCK [reading]. The national bank gold circulation up to 1899 had increased slowly to $237,000,000 annually. It was smaller at that time than it had been 15 years before, but the next year it increased to $300,000,000, and the next to $345,000,000, and two years later to $399,000,000, and the next year to $433,000,000, and the next year to $480,000,000, and in 1909 it was $665,000,000. Evidently something had happened in the way of legislation.

Senator POMERENE. From what were you reading?

Senator HITCHCOCK. From the National Monetary Commission's report, page 158.

The CHAIRMAN. With the permission of the committee, I will state that a bank with which I was connected telegraphed to the Hanover National Bank to buy $100,000 worth of 2 per cent bonds on our account, and then to take those bonds to the Comptroller of the Currency and get a like amount of our funds in bank notes. The result was we acquired $100,000 of bonds and paid for them with bank notes, and thereafter we collected interest without having invested anything except a premium of 2 or 3 per cent.

Mr. SHIBLEY. That is an illustration of how it works; of what takes place.

Senator WEEKS. The issue of bank circulation is very largely dependent on the profits which the bank can make out of that circulation. When they had to put it into a bond bearing the rate of 2 per cent, and only got 90 per cent back, there was no profit in the circulation. When they were permitted to issue 10 per cent more

circulation, or as much as they put in, then there was a profit in circulation, and that is one of the reasons; other things have contributed, but that is one of the reasons why national-bank circulation has increased, because there has been at all times some profit in circulation, or an issue on circulation.

The CHAIRMAN. That is the reason.

Senator HITCHCOCK. Your argument, Mr. Shibley, is that if the national-bank circulation showed this enormous increase because it was profitable for banks to operate through it, then under the pending bill it is profitable to discount notes, and we will also have another inflation of currency from that source?

Mr. SHIBLEY. Unless there is a provision in the law directing the national board to retire paper money as fast as necessary.

Senator REED. You then hold that there is no such thing as an automatic regulation; that there has to be a human regulation?

Mr. SHIBLEY. Absolutely.

Senator REED. And that regulation must be wise and prudent at all times?

Mr. SHIBLEY. Exactly.

Senator NELSON. Can you describe the methods and how we can do that by statute?

Mr. SHIBLEY. I will show how this committee can frame a mechanism whereby stability in the price level can be maintained.

Senator NELSON. You can show how by statute we can get good men, but you can go no further.

Mr. SHIBLEY. We will see presently.

In speaking of this question of possible inflation under the bill before you, I will say that that is a situation we must face. The people of this country are patiently waiting for the party in power to remedy the high cost of living, and the only way to do it is to maintain stability in the purchasing power of money so that wages can catch up. That is the situation.

For the progressive Democracy of the year 1913 to provide for stability and honesty in this standard of prices will not be a new thing for the party. In the year 1900, after there had been three years of rising prices and it was evident that the volume of gold would continue to increase, the national Democratic convention reaffirmed its demand for stability in the purchasing power of money by saying:

> We reaffirm and indorse the principles of the Democratic platform adopted at Chicago in 1896.

Carefully note the wording, "We reaffirm and indorse the principles of the Chicago platform," which is that stability in the purchasing power of money should prevail. In 1896 there existed nonemployment and distress, due to falling prices, and the remedy, manifestly, was more money.

Beginning in 1897 the volume of money increased rapidly, and then in 1900 the Democratic Party reiterated the principle battled for in 1896 and then declared for free silver, and that as fast as full legal-tender silver money should be coined that a dollar of bank money should be retired. The exact wording of the platform is as follows:

> The retirement of national-bank notes shall take place as fast as Government paper or silver certificates can be substituted for them.

There you have it! Bank notes to be retired as fast as silver should be issued. Free silver without inflation was declared for. Full legal-tender metallic money was to be substituted for fiat bank money.

Stability for the future was pledged for in the following words:

> We reiterate the demand of the Chicago platform for an American financial system, made by the American people for themselves, which shall restore and maintain a bimetallic price level.

The word "maintain" means keep stable, and was so intended by Mr. Bryan. He did not get an opportunity to explain the general plan for the issue before the country became Anti-Imperialism, and both wings of the party got together.

It may be well to add that a 120-page book which I issued was the principal medium through which a mass of facts were presented that led to the declaration for retiring the bank money as fast as silver money should be coined.

I wish to emphasize the principle declared for in the Democratic platform of 1900, that the volume of paper currency in connection with the gold standard should be so controlled as to maintain stability in the purchasing power of money. One can readily see the practical nature of this principle. About one-third of the volume of our money is paper, and, therefore the total volume of money in the gold-standard world can be absolutely controlled by the people's Government in the United States, provided the proper mechanism is supplied. The administration bill proposes the proper mechanism, namely, a unified control of the price level of the country, together with an instruction that the aim shall be to promote stability in the purchasing power of money. When the crops are to be moved the volume of paper currency is to be temporarily increased, followed by a gradual retirement as rapidly as the demand slackens. At the first of each month the volume of paper currency is to be enlarged and then gradually be retired.

Senator NELSON. Is that in the bill?

Mr. SHIBLEY. That is what the bill provides. Furthermore, at any time that depositors may demand their money from the banks, then the volume of elastic paper currency will provide whatever money shall be needed, to be followed by its gradual retirement. If the output of gold from the mines is so large as to tend to cause an inflation, then the national board in control in the United States should retire whatever amount of paper currency is necessary.

Senator BRISTOW. You would not leave that to the judgment of this national board?

Mr. SHIBLEY. Not by any means. Under this proposal discretionary power is removed from the national board by the rule that is in the administration bill that stability in the purchasing power of money shall be promoted. If there is too much gold, then you must retire some of the paper money.

Senator CRAWFORD. Does the volume of this paper money, which is only partial legal tender, have anything whatever to do with the purchasing power of gold? Does not the purchasing power of gold depend entirely upon the attitude of the world toward gold and the amount produced each year added to the world's stock of gold, and does this paper money have anything to do with the purchasing power of gold?

Mr. SHIBLEY. The purchasing power of gold is shown in the market reports of the world. Therefore the paper money has something to do with the purchasing power of gold. The paper money does its work the same as bank credits and it helps to affect the price level. The fact is that the Government controls the volume of paper money and therefore controls an important factor.

Senator CRAWFORD. So this volume of paper money does affect the purchasing power of gold?

Mr. SHIBLEY. Absolutely.

Senator CRAWFORD. You think it does?

Senator HITCHCOCK. The volume of paper money is not on a gold basis?

Mr. SHIBLEY. Oh, yes; but it is. I would ask the Senator to tell us if we should retire at once the $759,000,000 of bank money, would the price level fall, do you think?

Senator HITCHCOCK. It might, relatively, in different localities.

Mr. SHIBLEY. That means that the value of gold would increase through the withdrawal of paper money.

Senator HITCHCOCK. What I had in mind is that, taking England, the use of bank notes is apparently growing less and the use of checks is growing larger all the time, and the credits that are used are simply gold credits. Would the increase in the volume of English bank notes or the decrease of the volume of English bank notes have any effect on the purchasing power of gold, where gold is the basis, and is really the only money of ultimate payment?

Mr. SHIBLEY. Surely the purchasing power of money must be affected when you withdraw paper money.

The CHAIRMAN. You had better proceed with your argument.

Mr. SHIBLEY. As I said, probably 100 millions of dollars of paper currency may have to be retired next year in order to maintain stability. That retirement of the 100 millions of dollars, should it become necessary, would prevent a tremendous amount of injury to the people, both of the United States and the rest of the gold-standard world. We have seen that each dollar of wrongful inflation takes from the widows and orphans three times as much from their life insurance money, while the wage earners and all others with fixed incomes are robbed of $6 for each inflation dollar.

There is a tremendous need, therefore, that the forthcoming currency law shall properly provide for the retirement of paper money in proportion as the gold in circulation tends to inflation. There is in circulation in the United States 759 millions of dollars of bank money, so that should 100 millions of dollars be retired each year to make a place for gold money it would result in stability in the price level for seven years, and long before that time would elapse an arrangement could be made with the outher progressive governments of the world to reduce somewhat the mint price for gold and thereby lessen the output of gold from the mines; second, it would increase the use of gold in the arts because of the lessened price; and third, greatly lessen the volume of new money coined from gold from the mines. This lessened volume would result, therefore, from the three causes—first, the lessened output of gold; second, the increased use of gold in the arts; and third, the increased quantity of gold in each gold coin.

Thus there is a practical method whereby the governments of the world which the people now control can provide a mint price for gold that will result in stability in the purchasing power of money through the intelligent control of the volume of the paper currency. The system is as simple as A B C when once the factors are stated and understood. The Democratic National Convention of 1900 declared for this system and now the Democratic administration of the year 1913 has put forth a bill embodying the necessary mechanism and instructions, when there is incorporated a provision for the retirement of paper currency as occasion requires.

There are several tactical advantages for the party in power by establishing the proposed system for this country.

First. It will settle one of the biggest questions which heretofore has bothered us. The money question will be settled and settled right, thus removing it from politics.

Second. The national board would then become a scientific board rather than a political board. It would be a political board were it to decide the political question of the amount of inflation or contraction from week to week; but by placing in the law a criterion or aim whereby this great issue is to be settled, it will settle it effectively and leave the national board free for the decision of the scientific questions such as the details of how the measurement of the purchasing power of money shall be made, and details in connection with the management of the 12 reserve banks.

It follows, I believe, that under this proposed system for scientific work by the national board it should be composed solely of scientific men chosen because of their special knowledge of the subject and demonstrated ability. Of course, they should be selected by the head of the Government by and with the advice of the Senate, and be subject to recall at any time by the President, and each decision by the board should be subject to a veto power by the Secretary of the Treasury, who is the President's spokesman in the Treasury Department.

This general subject is so broad that some study must be given to my proposal in order to grasp the details.

If the law shall declare that stability in the purchasing power of money shall be the aim toward which the national board shall work, then the said board will have no discretionary power in the matter. The situation would be quite like it is should a fireman be directed to carry steam at 100 pounds pressure; he has no discretion as to the main point, and therefore must shovel in coal at certain times and at other times open the drafts. So it will be when the national board in control of the price level or purchasing power of money in this country shall be directed to keep the index number of average prices at 100.

The control of the price level is to be through the control of the interest rate for money; namely, the rediscount rate for commercial paper in the reserve banks. If the interest rate is properly adjusted it will be continued from week to week with no change whatever. For example, the Bank of France during the 20 years 1886 to 1907 changed its bank rate only 29 times. As most of those changes were made to meet the panicky conditions in the United States or England, it follows that when we have a better system even than that of the

French people it may be that our bank rate will be continued year after year with scarcely a change.

But whenever our index number of average price tends to fall it will show that our interest rate for money is a little too high; and whenever the index number of average price tends to rise it will show that our rediscount rate is a little too low. After a time our national board will become experienced and will be able to gauge with great accuracy our rediscount rate. They will do sharpshooting the same as our men do who are using the 13-inch guns.

In each country in Europe the interest rate is carefully controlled by a national board just as is proposed in the Owen-Glass bill, but in Europe the aim within each of the leading countries is to accumulate as much gold as possible, as gold is a weapon of war. In case a war should be declared by one or more of the leading powers of Europe, their Government would borrow gold from the gold reserve and send it abroad for the purpose of purchasing munitions of war and food supplies.

Here in the United States, however, where gold is not being hoarded as a weapon of war, nevertheless we are to increase our holdings of gold provided we stand for stability in the purchasing power of money, as it doubtless will cause us to retire paper money to make a place for more gold.

I have thus gone over the ground to demonstrate the practicability of the proposal in the Owen-Glass bill for the unified control of the purchasing power of money and that stability in the purchasing power of money should be the aim.

But this proposed system in the Owen-Glass bill has not been understood by the bankers. The bankers, being a creditor class, are extremely desirous of preventing depreciation in the standard of value, and therefore should heartily approve the proposal in the Owen-Glass bill that stability in the standard of value shall be maintained. This means that the rising flood of gold of which I presently shall speak must not be permitted to raise our price level and thus depreciate the purchasing power of money.

Another thing which the bankers have not understood is that should the law lay down the rule that stablility in the purchasing power of money shall be the aim, then that great issue will have been settled. The bankers have not realized this, but have been fearing that the national board appointed by the head of the party in power, would result in a political control as would surely be the case if it were free to decide whether or not the rediscount rate for commercial paper should be low or high. Fortunately the conditions will be such that the national board as the representative of the party in power will be obliged to work for stablility in the index number of average price. This index number will be issued from time to time and will be looked at by many people with growing interest.

Reviewing what I have just set forth it is clear that the tactical advantages for a declared stability in the purchasing power of money will be:

First, that it will settle the money question, the biggest and most intricate question that has bothered us; second, the national board will then become a scientific board rather than a political board.

In the European countries there is no money question because there is a control in the Government, or in a board which does as the Gov-

ernment wishes, and the Government in its earnest efforts to promote the strength of its people acts wisely. Therefore, there is no money question in the politics of any of the leading European countries. We likewise will so eliminate the money question from politics when the Owen-Glass bill as worked out in Congress becomes law.

But an issue that should come squarely to vote is, Shall the law expressly lay down the rule at present in the administration bill, placed there at the initiative of the Senate committee chairman and stricken out in the House bill, that the rediscount for commercial paper shall be at such interest rates as will tend toward stability in the purchasing power of money?

Under the rule proposed there can be neither undue inflation nor undue constraction. This would mean "stable money." If this principle accords with the principles of the "sound-money" advocates it will be accepted. If they refuse, it will be prima facie evidence that they are secretly planning an inflation. They never tell the public at what they actually are aiming, but profess one thing while aiming at another, because they know that the people who are supposed to be the ruling power would object. But the issue can be squarely drawn by this Senate committee, and no man in Congress at this stage of public enlightenment and direct primaries would dare to openly vote against stability in the purchasing power of the standard of value. Common honesty requires stability, and therefore the sleight-of-hand system which the money lenders and the trusts have fostered should be terminated. Nine-tenths of the people would be seriously injured by further rises in the price level for commodities; for then the incomes would become adjusted, thereby terminating the larger part of the high-cost-of-living problem. Possibly one-ninth of the people would be benefited by inflation, these one-ninth being the business men who are employing labor and are selling the products of labor; but all of the business men who have prices for their products that we practically fixed, such as the railways, are most seriously injured by a rising price level; and now that the industrial trusts are about to come under strong control by the Government they too will find that they must keep their prices practically stable and will loudly call for a stable price level. It would seem that we have reached a point where legislation will declare for stability in the price level.

I believe that this committee will decide to support the administration's proposal that the aim of those who control the interest rate for money in the Federal reserve banks shall be to promote stability in the purchasing power of money.

For more than a generation the people of this country have been battling over the money question the grater part of the time, and now if Congress will place in the forthcoming law a declaration for stability and honesty in the standard of value it will be just and right, and will remove the money question from politics, and the party now in power will continue to control the Government.

But the issue is so clear that even though Congress should not place in the law a declaration for stability, yet the President's national board would find that the existence of the chart showing from month to month the purchasing power of money would practically compel the said board to notice it and use it as a gauge. Place yourselves in the position of this national board and consider yourselves

as debating the proper height of the rediscount rate for commercial paper. Suppose the tendency were for the price level to rise, thus showing an injustice to nine-tenths of the people of this Nation, and a hearing should be asked for and the case presented, you would be obliged, politically, to decide justly; otherwise the case would become an issue at the primaries. So, I say, the case is so clear that now that a national board is to be charged with the control of the height of the price level, that control must be just. The voters are now in control which insures justice for the people.

Only a few of the students of the money question are keeping their eye on the index number of average prices, but those of us who do so know that we can, if necessary, prove our case before the forthcoming national board, and even should it refuse to act justly we can take the case before the voters and win. Such is the power of truth among a self-governing people.

I believe that this Congress will declare for stability and that will settle it. But there is an issue that will be handed on to the national board and that is as to how the index number of average prices shall be constituted. That is a debatable question and a most important one. The conflicting interests, such as debtors and creditors, business men and wage earners, will raise issues when the national board comes to construct the index number for the measurement of the purchasing power of money. Therefore, the members of that board should understand the science that they will be called upon to develop; and public hearing should be had, written decisions should be rendered, and published reports should be issued.

Senator WEEKS. Public hearings for what purpose, Professor?

Mr. SHIBLEY. Public hearings to determine just how the index numbers should be constituted. Let me explain here that there are two great factors in constructing this index number. The price of farm products tends to rise as society progresses, and the prices of manufactured products tend to go down. They are charted here in the Government publication, and I should like to add another chart to show how the prices of particular articles change as the years go by.

Some 14 years ago the great problem we found in constructing our index number was what should be the proportion between those commodities that are appreciating in price year after year and the prices that are depreciating. So you see it is a close question, and there are probably two or three volumes on this general subject. The English scientific societies began considering it in 1886.

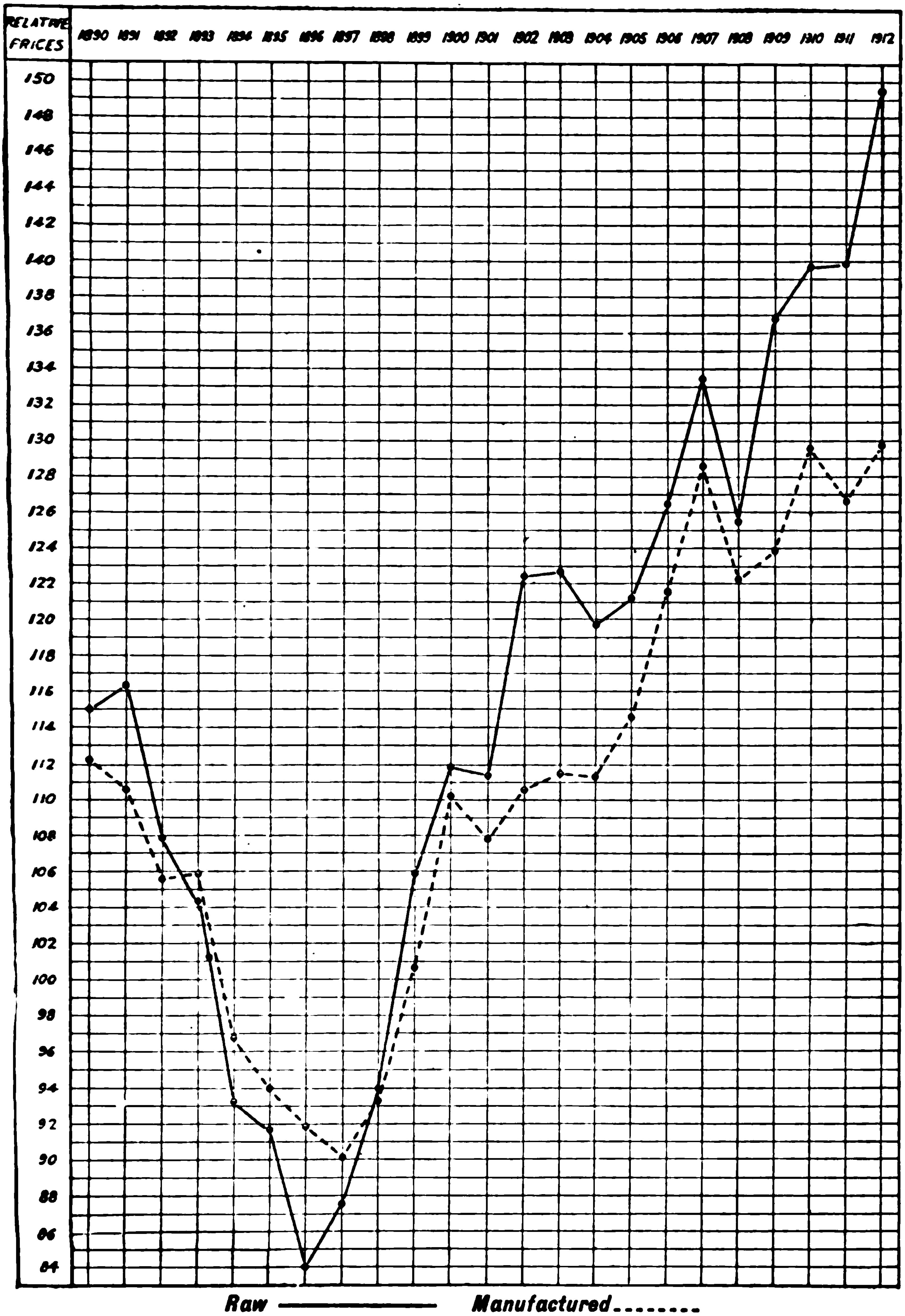
Senator WEEKS. You would be in favor of public hearings to determine what the index number should be?

Mr. SHIBLEY. To determine how the index number should be constructed.

Senator WEEKS. And that would be really your standard of value?

Mr. SHIBLEY. Yes; the real standard of value when you get it constructed. I wish to call your attention to the fact that Prof. Irving Fisher has stated to this committee that he believes this index number of our Government, constructed in 1902, does not show the price level as high as it ought to be shown; in other words, that the business men under whose administration that index number was con-

structed had it constructed in their own behalf. There is another thing to be looked into——



Relative prices of raw and manufactured commodities: 1890 to 1912.

[Average for 1890 to 1899=100.0.]

Senator HITCHCOCK (interposing). Is there any material difference between the construction of the index numbers in Europe?

Mr. SHIBLEY. Yes; there is a very great difference.

Senator SHAFROTH. In England one takes in 45 commodities and the other, I think, 103.

Mr. SHIBLEY. That is my understanding.

Senator CRAWFORD. We would be at a great disadvantage because of not having some uniform and commonly accepted basis upon which to rest our statistics from foreign countries as well as our own.

Mr. SHIBLEY. All of the price levels agree in the main. The fact that money is increasing in volume and that its purchasing power is decreasing is demonstrated by all.

Senator HITCHCOCK. What has the Government used in its computation? What number of commodities?

Mr. SHIBLEY. I can not say offhand.

Senator NELSON. Your idea then is that the discount rate should be fixed by this index number showing the price level?

Mr. SHIBLEY. Absolutely.

Senator NELSON. Would you put that provision in the bill?

Mr. SHIBLEY. Oh, yes; it is in the bill now. It is in the Glass-Owen bill, but was stricken out in the House bill.

Senator NELSON. Would you put in this phrase: The Federal reserve board shall prepare or cause to be prepared an index level of prices, and when such an index level of prices is prepared from time to time it shall be their guide in fixing the discount rates?

Mr. SHIBLEY. That would be the substance of it.

Senator NELSON. Well, would you put that in the law?

Mr. SHIBLEY. Certainly.

Senator NELSON. Your theory is that would solve the whole question?

Mr. SHIBLEY. Yes; and in the administration bill there are the words: "The rate shall be so fixed as to promote stability in the price level." That is all that is necessary; all the rest is incidental.

Senator CRAWFORD. That is not the bill as it passed the House?

Mr. SHIBLEY. No.

Senator HITCHCOCK. I see the Government uses 255 commodities.

Mr. SHIBLEY. That is for the price level as a whole, and I think that number is probably too large. We found that we could get only about 66 articles having grades and market reports therefor that could be traced for a considerable number of years.

Senator SHAFROTH. Prof. Sauerbeck's tables took in 89 per cent of all the commerce of the country.

Senator WEEKS. Not in number of articles?

Senator SHAFROTH. Oh, no; in value.

Mr. SHIBLEY. The fact is, monetary science has reached a point where the money question can be settled in this country, if Congress will restore in the bill the four or five words in the administration bill that the interest shall be so controlled as to promote stability in the price level.

The CHAIRMAN. I took a good deal of pains to have that put in the bill. I was very much interested in it, because I thought the great thing we needed in this country, both for the creditor class and for the debtor class, was stability, that they might know their relations to each other, and so that they might know there would be no change of contract by a change in the purchasing value of the dollar. For

that reason I insisted upon its going into the original draft of the bill.

Senator BRISTOW. If it should appear that the quantity of the money does not control the prices, then your theory would fall down?

Mr. SHIBLEY. Absolutely fall down; but we have shown by the history of the world that if you take out enough money you can influence the price level, and if you put in enough money you can influence the price level. European Governments exercise this control through their control of the gold reserve and the paper currency. Here are two factors by which the Governments of Europe absolutely control the price level within certain limits.

Senator CRAWFORD. Then you are regarding this paper currency, whether legal tender or not, as money in the sense in which it enters into this question of appreciation or depreciation of purchasing power?

Mr. SHIBLEY. Let me state it this way: Paper currency has an effect on prices and so do the bank credits. Our Government will not control the volume of bank credit except through regulations concerning the bank reserves, but through its control of the volume of paper currency it can withdraw $100,000,000 every year, if necessary, until we can get an agreement by the European nations to lower the mint price, if necessary, to maintain stability.

The working people of England are now a balance of power in their Government, which they did not have prior to 1906. So that now when the money question shall be brought up and the British Government is shown that by changing a few words in their law they can provide for stability in the purchasing power of money, and will do it.

Senator CRAWFORD. There is no law that requires this Bank of England to fix the discount rate. It simply does it because it is controlling the world market for gold, but it is a private bank after all.

Mr. SHIBLEY. It is an arm of the Government, one of the most important functions——

Senator CRAWFORD (interposing). It is an accommodation to the Government, but, after all, it is running that part of it as an independent bank over which the Government has no control in that respect.

Mr. SHIBLEY. But if that bank did not handle that thing satisfactorily to the Government they would change it so that it would be satisfactory.

Senator HITCHCOCK. You think the people would like to have the currency contracted so as to check the rise in prices and, perhaps, produce a reduction of prices?

Mr. SHIBLEY. They want to keep the average of prices stable; they do not want robbery either on one side or the other.

Senator HITCHCOCK. Taking into account that we sell to Europe so much more of products than we buy from Europe, or from the rest of the world, do you think the American people would like to see a change in our currency which would produce a reduction in the price of the goods we sell?

Mr. SHIBLEY. Not to reduce the prices, but to keep them stable. The point is to prevent future inflation.

Senator HITCHCOCK. You want them to maintain the present level?

Mr. SHIBLEY. Exactly.

Senator POMERENE. That assumes that the present level is a proper level?

Mr. SHIBLEY. Well, we are here, and that is all there is to it, in my judgment. Should we lower the price level we would bring on hard times and trouble.

Senator CRAWFORD. Suppose there should be a widespread famine or an abnormal crop next year. You can not be governed by the price level this year in fixing the price level next year.

Mr. SHIBLEY. Those changes would make a difference in comparison with the prices of other commodities, but we are speaking of the average purchasing power of money as affected by all of the existing factors.

Senator POMERENE. Your position, in brief, is this: That the ratio of the volume of money to all products combined should be one and the same thing year in and year out?

Mr. SHIBLEY. That is the idea exactly.

Senator REED. Then, if production were cut down money would have to be cut down?

Mr. SHIBLEY. Yes.

Senator REED. And if production were increased money would have to be increased?

Mr. SHIBLEY. Exactly.

Senator REED. So that the purchasing power of the dollar would be controlled by the wheat produced in the world in a year?

Mr. SHIBLEY. You now are speaking of a single article, I am dealing with the average of all prices.

Senator REED. And if we had no wheat and no corn, then we ought not to have any money?

Mr. SHIBLEY. Something as to the effect of the size of the crops is shown when we go to move the crops. If we have large crops, we must have more money, but if you have no crops——

Senator REED (interrupting). Let us take an extreme case. If we had no wheat, no corn, and no potatoes, and right at that time we wiped out the money, what would become of the debts?

Mr. SHIBLEY. We would not wipe out too much money. The price level would be kept stable, but the price of potatoes would go away up high, and those who had potatoes would make money out of them.

Senator REED. How could the price go up high if you had no money?

Mr. SHIBLEY. I say we must have enough money to keep a stable average.

Senator REED. To keep the price the same.

Mr. SHIBLEY. To keep the average of prices stable.

Senator REED. Suppose there were a world shortage.

Mr. SHIBLEY. The price of that product would go up.

Senator REED. I mean a world shortage of everything in the way of agricultural products.

Mr. SHIBLEY. Then those prices would go up as compared with manufacturers. And there should be placed, either in the bill or in the regulations concerning it, that when this national board sets out to construct the index number of average prices proper allowances should be made as to what shall be done when we have a short crop and when we have a large crop. That is a detail that is

to be worked out. But we know we must have stability in accordance with the rules laid down. Here is an instance I will give you as to one of the details: In saying that there shall be a stable average of prices, that means a practically stable average of prices, because in order to carry the crops the average of prices should go up a little each month. The prices of wheat, corn, and of all agricultural products must rise from harvest time until the next harvest time in order to get the cost of carrying them, and therefore the price level should rise a little. Doubtless the national board will after a time lay down a rule that it may require a 1 per cent rise from harvest time to harvest time, and then when the next harvest time comes and the price of those products fall in the market, that then the price level should go down that 1 per cent.

Senator NELSON. The price of cotton, corn, and potatoes is unusually high, compared with last year. Would you change the currency on that account? Would you contract it?

Mr. SHIBLEY. No; you must have enough currency to meet the demands, and we should find out what is right when we have large crops and short crops. That is to be worked out. That is a scientific problem, but it does not effect the main proposition.

Senator NELSON. Now, we are a great exporting Nation. We export immense quantities of cotton, breadstuffs, and meats to foreign lands. Now, how can our level of prices here and our regulations based upon that affect the prices that we get for our products in countries abroad? Do you not require an international index of prices?

Mr. SHIBLEY. If we will keep our average of prices stable there will be a practically stable average all over the gold-standard world, because gold is shipped back and forth.

Senator NELSON. Oh, yes; that is your theory?

Mr. SHIBLEY. Yes.

Senator CRAWFORD. But it is difficult to get an international statement, because their quantities are expressed in different terms; we use a bushel, and they use something else, and the ratings and the quantities are different; and that is why Prof. Fisher is so anxious to have some international standard of statistics.

Mr. SHIBLEY. Those things will all work out readily if we will simply declare in our law for stability and empower the board to go ahead and take the proper steps.

Senator NELSON. You have not finished your statement. Perhaps you had better go on and give us the whole of it.

Mr. SHIBLEY. Now, I have followed the problem to where the real contest comes in, as to how the index number shall be constructed.

It may be, however, that the advocates of the House bill will say they admit that stability in the purchasing power of money is the ideal and that the national board appointed by the Government should in its management of the interest rate and the control of the volume of gold and of paper money aim to promote stability in the purchasing power of money, but that the national board should be free to use its own judgment in the matter.

I reply that this is not satisfactory. Why object to stating the instruction in the law itself? In fact, the proposal is that there shall be an instruction as to the height of the rediscount rate, namely,

that "of accommodating the commerce of the country." (Sec. 15, par. d.) That is capable of being given any meaning that the power in control may choose to say, for it has no technical meaning as has stability in the price level.

So the House committee has stricken out a plain direction, leaving in a direction that can be the basis for rank inflation if the directing power shall so decide.

Senator REED. You say there is a provision in the House bill?

Mr. SHIBELY. Yes. It says that the interest rate for rediscounting commercial paper shall be such as to accommodate the commerce of the country, and that means nothing. It means whatever the individual may choose to have it mean.

Senator REED. It means what that man thinks will accommodate the commerce of the country?

Mr. SHIBLEY. Yes.

Senator REED. That depends upon whether he is a bull or a bear?

Mr. SHIBLEY. Certainly. The business interests want inflation, and the House committee has provided that the volume of reserves which the national banks shall be required to keep shall be cut in two (pp. 65–66, report of House committee), which means a wild inflation, except as the national board shall interpose a veto. For the national board to do this it would have to withstand pressure from the business men. Inflation would greatly benefit the business men and injure nine-tenths of the people, including the bankers and all of the creditor class. All doubt as to what the national board will do should be set at rest by restoring in the forthcoming law the rule that stability in the purchasing power of money shall be the aim.

Thereupon, at 12.55 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. Mr. Shibley, you may proceed.

STATEMENT OF GEORGE H. SHIBLEY—Resumed.

Mr. SHIBLEY. Mr. Chairman, before taking up the next subject, the probable volume of gold in the near future, I would like to amplify just a little the point we were talking about before the recess, and that is as to the price level and its relation to particular prices. I was asked by the Senator from Missouri as to what would be the effect if they have a shortage in the crops and should there be a contraction in the volume of the money. Now, I was speaking of the price level, and he brought up a particular price, and those two things are not capable of being compared.

Senator HITCHCOCK. Have you any estimate about what the effect on the price level would be of a change in the price of wheat?

Mr. SHIBLEY. No.

Senator HITCHCOCK. It would be infinitesimal?

Mr. SHIBLEY. Yes. We have such a large quantity of articles in the index number of average prices, but each article is given a proportion according to its value.

Senator HITCHCOCK. Potentially?

Mr. SHIBLEY. Yes; so wheat would be given a very large value.

Senator HITCHCOCK. Compared to some others.

Mr. SHIBLEY. Yes; as compared with the other commodities; to some others.

Senator HITCHCOCK. After all it would only be one of 70, 80, or 90 articles?

Mr. SHIBLEY. Yes; that is the way. Now, as to the effect of increasing the volume of money or of decreasing the volume of money, it is the same as if you pour water into a large tank. You put in the water and the price level goes higher and higher and higher. In the British Association for the Advancement of Science an investigation showed that 200 years ago prices were only one-sixth as high on the average as they now are.

Senator CRAWFORD. Where you have a single gold standard and all real money is convertible into that gold standard, then how does it make much difference how much this paper money on demand must be converted into gold—how much there is of it? Does not the volume of the gold really determine the question after all?

Mr. SHIBLEY. No; I think not. It is the volume of gold plus the volume of paper money, plus the credit that is on the one side and on the other side the things against which these things exchange, and that is brought out beautifully by a chart of Prof. Irving Fisher. of Yale University.

It may be found in Prof. Irving Fisher's work The Purchasing Power of Money, at page 307, where the following statement is made:

What, then, in brief, are the facts of history? They are that prices have increased by two-thirds between 1896 and 1909, that this has been in spite of a doubling in the volume of trade, and because of (1) a doubling of money, (2) a tripling of deposits, and (3 and 4) slight increases in the velocities of circulation.

The CHAIRMAN. I will ask you to put in the tables indicating the price levels in England, Germany, and France, as far as they have been made up.

Mr. SHIBLEY. The facts are as follows:

The gold standard of prices is international, gold being shipped from one country to another at the mint price plus the cost of transportation, interest, etc. In Germany the rise in the average of prices at wholesale has been practically the same as in the United States—namely, a 42 per cent rise in Germany for the 13 years from 1896 to and including 1909 as compared with a 40 per cent rise in the United States and a 30 per cent rise in France and a 21 per cent rise in England. Two years later in England the rise amounted to 31 per cent. (Sauerbeck's Index Number for England and Hooker's for Germany and for France, quoted in Journal of the Royal Statistical Society, London, December, 1911, p. 35; and in same journal for March, 1912, p. 412.) The larger rise of prices in the United States and Germany is partly due, doubtless, to the larger development of private monopolies.

Senator SHAFROTH. Are you through with your direct statement?

Mr. SHIBLEY. No; not as yet. VII. I have reached the point where I was about to consider the question of the rising flood of gold that doubtless is facing us in the future and the legislation required.

The chart of the Department of Labor of our Government shows that for the past 16 years the purchasing power of money has been shrinking and shrinking. That is, the prices of commodities have been going up and up and up—the average of prices—and we have decided, I hope, that from now on there should be stability. If so, the direction of the chart line will have to be changed from what it is now. Instead of continuing to go up, up, up, it ought to go just straight like that [indicating], and it can be made to go straight if the Government of the United States so wills.

The CHAIRMAN. Do you think it will require the cooperation of other nations?

Mr. SHIBLEY. Only in the event of gold continuing to increase in quantity, and if it does, then after we, for a couple of years, have maintained stability for the gold-standard world, then we should ask the aid of other nations, simply that they change the mint price of gold. It is now $18.60 an ounce, nine-tenths fine, troy weight. It is coined into money at that rate. Now, if the rate should be changed to $16 an ounce, you see it would produce far-reaching effects in the gold-mining industry. The first effect would be that the poorest mines in use would no longer be worked.

Senator HITCHCOCK. Could you not produce the same effect by an agreement to limit the gold currency?

Mr. SHIBLEY. Then you would lose the gold standard—lose the system whereby the merchandise price for gold is practically the same as its mint price.

Senator SHAFROTH. I received a circular the other day from some body in New York on gold production, which was to the effect that this year—that is, the year ending June 30, 1913, I think—it was less than the previous year; that the maximum limit of gold production had been reached and that the demands on gold were perfectly enormous; that India, instead of hoarding silver as it used to, is now hoarding gold, and it was sinking it at the rate of $250,000,000 a year. Is there anything in that circular?

Mr. SHIBLEY. I think he is going to the extreme, because all people who have studied the question, as far as I have seen their statements, think it probable that we are going to have an excess in the volume of gold. For the past two or three years Prof. Fisher each year has been predicting what is likely to be the trend of average prices. He has predicted that the trend would be upward, and such has proved to be the case. Now, as to the effect of changing the mint price. You see, that would at once have a far-reaching effect on the production of gold.

Senator HITCHCOCK. What Senator Shafroth was referring to is in the Transvaal. Apparently a limit has been reached of the output of gold, and in the United States we are producing four or five millions of dollars less this year than we did last year. There seems to be a check in the increase in the production of gold and a great increase in the demand for gold in India.

Mr. SHIBLEY. That is very hopeful. If we are not going to have too much gold, then the United States can maintain the average of prices. Through the control of the volume of paper currency we can control the price level. The greatest difficulty will be to refrain from getting too much gold.

One great result of our getting a good currency system will be to increase the volume of business, and that would require more money; so it may be that we will find no trouble and may not need any change in the mint price.

The Governments of France, Germany, and England are run in the interest of the people as a whole, and the wageworkers in those countries are now a balance of power, and those Governments will not permit an inflation to take place if they can help it. And those countries are creditors of the rest of the world, and that is another reason why they will not permit money to depreciate.

Senator HITCHCOCK. All those European countries are a purchasing class, too.

Mr. SHIBLEY. Yes. Now, I wish to state that the national board of control, in order to promote stability in the price level, will depend upon the following factors:

First, they will depend upon the broadening out of the volume of business in this country and abroad. That will surely take place, for quite soon the experts in money and prices will realize that because the United States has started in to scientifically control the price level it will mean real stability as aimed at, which will justify business men in relying upon it and make certain long-time contracts which heretofore no sane man would think of making. This will cause the volume of business to broaden out and require the use of more money. It may take up all of the gold that is coming out of the mines, so that there will be no tendency to a rising price level. Time alone will tell. Certainly the volume of gold will be so great as to at least fill up the channels of trade and keep the price level from falling.

Second, the national board of control, in order to maintain stability in the price level, will surely be obliged to prevent any inflation from reductions in the volume of the national-bank reserves during the dull season. That is beyond any reasonable doubt, because the volume of gold from the mines is so large.

I want to amplify that point a little by saying the present bill provides for the reduction of the reserves of the banks, very properly. The banks can get along with a smaller volume of bank reserves, and very properly, but it will enable the banks to tremendously increase the volume of credits, and thereby increase prices tremendously unless the national board shall be given authority to retire as much paper currency as necessary to maintain stability. If they find things tend to soar up, they should draw in some of the paper currency and thereby maintain stability. It is just like giving enough food to stock, and not too much.

Third, the national board must likewise prevent any inflation from the new paper money during the dull season if stability is to be maintained. Thus, when the dull season shall arrive next summer, then every dollar of the new paper money put out to help move the crops will have been retired if stability is the aim. We are putting out now \$25,000,000 to \$50,000,000 to move the crops, and when the dull season comes it ought to be drawn out of circulation in order to be ready for the next autumn, just as we have extra freight cars to move things.

These are self-evident facts to one who keeps in his mind's eye the rising price level for the preceding years and is intent on maintaining stability.

For the people's representatives on the national board to depreciate the standard of value would be inexcusable. Each 1 per cent depreciated would mean a terrific amount of injustice throughout the entire gold-standard world, as I have demonstrated.

We are taking upon ourselves our portion of the work in helping to stabilize the purchasing power of money throughout the entire gold-standard world, just as every other country that is using gold is also affecting all of the other countries. These other countries try to maintain stable conditions in the main, year after year, and so we for the first time in our history are to enter upon a really scientific control of the standard of value, as England has been doing since 1844, France since 1848, Germany since 1876, and Switzerland since 1905.

Senator HITCHCOCK. What has that showing been?

Mr. SHIBLEY. Those countries started in to have scientific money systems at those dates.

Senator NELSON. Will you read the countries and the dates again, please?

Mr. SHIBLEY. I will, gladly. The other countries, the countries other than ours, have been trying to maintain stable conditions in the main, year after year, and so we, for the first time in our history, are to enter upon a really scientific control of the standard of value, as England has been doing since 1844, France since 1848, Germany since 1876, and Switzerland since 1905.

Senator HITCHCOCK. There has been inflation in both Germany and France since that time.

Mr. SHIBLEY. Certainly. They have had a unified control, but until comparatively recent years the ruling power has been the few and a balance of power has been the creditor class, as I have shown.

Senator HITCHCOCK. The figures show that Germany greatly increased the volume of currency, and naturally, from your argument, it contributed to the rising prices.

Mr. SHIBLEY. Yes. But since 1876 they have had a unified control and have been working for their own interests as they thought best. Nowhere in these European countries have they permitted the banks to put the prices up and down as has been done in this country, Canada, and in Scotland. That is the difference between unified control of the interest rate for money and control by the banks themselves. In Germany the chancellor has absolute control of that interest rate. He can put it up or down, just as he likes.

Senator HITCHCOCK. The interest rate, or the volume of currency?

Mr. SHIBLEY. The interest rate, and thereby change the volume of currency that will be in circulation.

Senator HITCHCOCK. Neither Germany nor France depends on the interest rate to check the volume of currency. France has an arbitrary standard, and Germany limits it to three times the gold reserve.

Mr. SHIBLEY. It is a secondary limitation. The immediate limitation in each of those countries is the interest rate for money. That is shown in the Bank of England. When it finds that the country must have more gold it raises the interest rate and that tends to

reduce the prices of stocks and of commodities, and gold flows into England. So I say the control of the iterest rate by the Bank of England controls absolutely the volume of gold. Some of us wonder why the Bank of England can do such mighty work, having such a small volume of reserves, and it all comes about through the control of the interest rate. That is the main factor. Thereby they control the price level, which controls the volume of gold and determines whether they are going to have more currency or not. In France, they have the additional factor of saying that the bank of issue shall not issue any more paper currency than a certain quantity, and they don't get up to the limit because the other factor is at work, and when they do the law puts the limit a little farther off.

Senator HITCHCOCK. Notwithstanding these limitations, there has been a considerable rise in the price level in Germany and in France, and to some extent in England.

Mr. SHIBLEY. They do not aim at maintaining stability for a series of years but simply guard the gold supply and the average of prices goes up and down according to the changes in the volume of gold and the other factors.

Senator HITCHCOCK. I thought you were arguing their systems were calculated to maintain stability of prices?

Mr. SHIBLEY. In a general way they do so, but because they must hold gold as a weapon of war that has been, and is, the prime object with them, rather than to aim at stability in the purchasing power of money for the gold-standard world. But a secondary object in the issuance and retirement of paper money has been to maintain stability in the purchasing power of money, as is demonstrated by the manner in which the Bank of France, and the other banks of issue have controlled their elastic volumes of paper money.

Senator HITCHCOCK. I hardly agree with you there, on that. I think that as long as there are periods of inflation, followed by periods of depression, in which the loss is heavy, there will have to be proportionate an increase in the volume of money.

Mr. SHIBLEY. As pointed out this morning, the gold-standard countries have caused great changes in the price level from the hoarding of gold. For the past 50 years they have been doing that. And as the United States is so large and we have out so much paper money, we are in a position to absolutely insure the stability in the gold standard world's price level for a couple of years, and by that time the other nations, such as England, France, Germany, and the other countries will take hold with us, if necessary, and thenceforth the desired end will be attained.

I have just said that we have out so much paper money that we are in a position to absolutely insure——

Senator NELSON (interposing). How do you figure the paper money?

Mr. SHIBLEY. The volume of greenbacks and bank notes.

Senator NELSON. How much does that amount to?

Mr. SHIBLEY. About one-third of our total circulation. Therefore we now are in a position to insure stability in the world's price level for a couple of years. What I mean is that we are in a position to gradually retire some of our paper money and thus make room for what otherwise would be too much gold and a rising price level.

Senator NELSON. You don't think we have too much money now?

Mr. SHIBLEY. Suppose the stability should require that next year we retire $100,000,000 of the bank money or its substitutes. We ought to do it. Five hundred million dollars of paper money has been unjustly issued since 1900 and now is in circulation. Let us recognize the equities and be prepared to act.

That will require that the forthcoming banking and currency law shall authorize the national board to order the national banks to retire some of their paper money month by month. Soon after January 1 of next year there should commence the permanent retirement of as much paper money as there will have been an increase in circulation from the decrease in the amount of the bank reserves, some $450,000,000. We now propose to lessen the banks' reserve tremendously, and by next February we should be able to retire enough of the paper money to maintain a stability.

Senator NELSON. In the country banks we only lessen the reserves 3 per cent, and in the case of the central reserve banks and the reserve banks in the city 7 per cent.

Mr. SHIBLEY. I believe the reserves are cut down from $900,000,000 to $450,000.000, practically cut in half, as it ought to be.

Senator NELSON. No; they are not cut in two. The country banks are cut from 15 to 12 per cent, and the other banks are reduced to 18 per cent. I mean, that is the ultimate plan.

Senator SHAFROTH. Yes, Senator; but the provision in the law is, for instance, in the central reserve banks, that half of that 9 per cent, only half of it, needs to be kept in the reserve bank, and that makes a credit reserve of about 4½ per cent, only, whereas now it is 12½ per cent. But of course they have got to keep the balance in their own vaults, and I do not see it makes much difference.

Mr. SHIBLEY. The figures I rely on are in the report of the chairman of the House Committee, Report 69, Sixty-third Congress, first session, page 65. The statement in the report is that the reduction in the required reserves in the national banks may amount to $452,000,000, out of the present total of $950,000,000 (p. 66), which would be nearly a cutting in two of the required bank reserves; and the Government funds amounting to $200,000,000 of $250,000,000 would be placed in circulation. This Government money is to be loaned out by the Federal reserve banks. Thus there would be a tremendous inflation, except as the Federal reserve banks should stack up cash in their vaults.

I point out that the law should provide that this national board shall be directed to maintain stability in the price level and that proper authority be vested in this board to retire paper money.

If it shall become evident that under the new régime of stimulated industry the gold supply is to be too great for stability, then the head of our Government should be directed to communicate with the Governments of the other gold-standard countries and suggest that by mutual agreement the mint price of gold be somewhat lowered, enough so to result in a stable measure of value in the gold-standard world without being obliged to retire noninterest-bearing paper currency to make a place for gold money.

A certain amount of paper currency can be used by each country because it saves a large amount of interest.

Senator HITCHCOCK. If you undertake to change the mint price of gold, you will have to recoin all the gold money.

Mr. SHIBLEY. No; for the gold coins would be a little heavier. Thus the coins in circulation would continue in use. Much of the gold is represented by gold certificates.

Senator NELSON. Yes; but our gold certificates represent our present quantity of gold, and you would have to have a new coin in proportion as the coins would be heavier.

Senator HITCHCOCK. You could not have two gold coins in circulation for the same paper—one of one weight and the other of another weight.

Mr. SHIBLEY. Each represents so many dollars. For instance, you have silver dollars that only have 50 cents' worth of silver in them.

Senator HITCHCOCK. If you have two classes of coins in circulation, the heavier coin, worth a dollar, will be driven out of the country and the lighter coin remain.

Mr. SHIBLEY. The idea is that all the other countries will have the same mint price, so as to have no driving from one country to the other.

Senator SHAFROTH. What would you do with contracts made for the present weight in gold—the present weight and fineness of gold; what would you do with those contracts?

Mr. SHIBLEY. I think the people who made them made a great mistake. They should have been made payable in dollars.

Senator SHAFROTH. I thought so at the time.

Mr. SHIBLEY. If we should strike a mountain of gold, they would simply lose almost all the value, whereas if they had relied upon the Government and said dollars, they would have been protected by the Government.

Senator NELSON. What would you make the new gold dollars?

Mr. SHIBLEY. Make them a little heavier.

Senator NELSON. If you made them a little heavier, it would take more gold.

Mr. SHIBLEY. Yes; that is the idea.

Senator HITCHCOCK. Could not your idea be carried out much more effectively simply by placing a limit on the amount of coinage each year?

Mr. SHIBLEY. You would just have a surplus of gold, and what would you do with it?

Senator NELSON. At all events you are satisfied you could not do anything in that matter unless the other countries agreed?

Mr. SHIBLEY. We could do nothing alone, except to retire our paper currency up to the limit, and ask the other countries to help; but their self-interest, now that liberal Governments are in power in most of the countries of Europe, would be against inflation. Thus we would at once secure international cooperation.

Senator NELSON. But here, Professor, as I understand it, it is generally conceded that for ordinary purposes our currency we have now, paper and gold, is about sufficient to do the business of the country. What we need is a currency bill that will provide for more currency in cases of emergency.

Mr. SHIBLEY. When I say we have had too much money, I refer to this chart, the first one in my statement, which shows we have been having too much money.

Senator NELSON. How long has that condition been?

Mr. SHIBLEY. Since 1897.

Senator NELSON. Since 1897?

Mr. SHIBLEY. It began at that time.

Senator POMERENE. What do you say should be the per capita circulation?

Mr. SHIBLEY. The per capita will be affected——

Senator POMERENE (interposing). You say there is too much now. What, in your judgment, should be the per capita circulation now?

Mr. SHIBLEY. It is now up to 162 per cent of what it was 16 years ago. It has been climbing up, up, up——

Senator POMERENE (interposing). Along about 1896 it was $23 and something per capita. Now it is $34 and something per capita. How much in excess of the proper amount do you think that $34 is?

Mr. SHIBLEY. If we could have kept the stability of the price level of 1898 or 1899, it would have been ideal——

Senator POMERENE (interposing). That still does not answer my question. I did not ask whether it would be ideal, or not, but how much is it now in excess of what it ought to be?

Mr. SHIBLEY. It will have to remain at 162 per cent plus whatever is necessary to maintain stability. When we are going to move our crops, we shall require more money, and when we are through moving the crops the per capita will drop down below what it was during the active season. We will simply have to go on with the level where we are now. We can not go back.

Senator SHAFROTH. That is, to 1896?

Mr. SHIBLEY. We can not go back to the price level of 1896, 1899, or 1900.

Senator SHAFROTH. What is it from 1890?

Mr. SHIBLEY. One hundred and twenty-five per cent or 130 per cent.

Senator SHAFROTH. What is it from 1873? It is about even with 1873, is it not?

Mr. SHIBLEY. I suppose that is about right. So at least we have gone high enough. We have now got to the point where we should maintain stability.

Senator HITCHCOCK. He does not believe in regulating the supply of the circulating medium by the per capita, but he believes in regulating the volume of money with stability in the price level as the object.

Senator SHAFROTH. Senator Pomerene is speaking about the per capita. You are not taking that as a standard?

Mr. SHIBLEY. No.

Senator POMERENE. I understand, of course, what his position is. He says we have got too much money now. We have got thirty-four dollars and some cents per capita.

What, in your judgment, would be the right amount, assuming the conditions as they now are?

Mr. SHIBLEY. When I said there was too much money, I was referring to the period since 1896, during which time the price level has been going up. Now we have got to keep what we have; we can not go back.

Senator POMERENE. In 1896 did we have too much?

Mr. SHIBLEY. We had too little, then. Things had gone down, down, down, and we had too little. Now, the price level has been going up, and we are going to make a start from just where we are, using the present volume of money.

Senator HITCHCOCK. You say, in your opinion, some currency would have to be retired to correspond to the increase coming from gold?

Mr. SHIBLEY. Yes.

Senator HITCHCOCK. Do you think that with an increased gold supply we could maintain prices somewhere near the present level?

Mr. SHIBLEY. Yes.

Senator NELSON. I think Prof. Fisher said there would not be a gold inflation.

Mr. SHIBLEY. I believe that you are mistaken in that. He is perhaps the best authority we have on that question in the United States. He has paid great attention to it; has been getting together all the factors and is keeping in touch with them. But his plan for getting a stabilized price level is to change the quantity of gold in the gold dollar, and that the Government should not regulate the volume of the paper currency. I would stabilize the price level through Government control of the volume of paper currency. I would suggest the following section in the banking and currency bill:

SEC. —. That for the prevention of depreciation in the purchasing power of money from the reduction in the volume of reserves to be carried by the banks the Federal reserve board is authorized and directed to retire at the proper time as much of the existing bank notes or their substitutes as may be necessary, and for the retirement of Federal reserve notes shall issue bonds, etc.

Senator POMERENE (interposing). Issue what?

Mr. SHIBLEY. Issue bonds. If bank notes shall have been substituted by Federal notes, then in some way we must issue bonds to retire part of those notes.

Senator NELSON. Why issue bonds?

Mr. SHIBLEY. In order to retire paper money. If we have $759,000,000 of Federal reserves notes out in place of the bank notes, when the time comes to take some of it in we should have bonds on deposit with the national board to be issued and retire some of the paper money.

Senator POMERENE. Suppose those notes were the regional reserve banks already—the bank notes or Treasury notes or Government notes, as you call them. You propose to retire that money which is in the regional reserve bank by the issuance of bonds and giving those bonds to the regional bank?

Mr. SHIBLEY. If the money is all locked up in those banks it will not be in circulation, and so no bonds would have to be issued. But under the plan I am proposing of no capital stock and a small amount of bank reserves in the banks of issue—just enough to settle the daily balances—there could be no retirement of the paper money now in circulation, except through the issuance of bonds. The national board would hold $759,000,000 of United States bonds for reissuance provided the existing bank money is retired by substituting Federal reserve notes.

Another paragraph I propose is as follows:

For the prevention of depreciation in the purchasing power of money from too much money from the coinage of gold or other cause, the Federal reserve

board is authorized and directed that if necessary it shall from time to time retire some of the existing bank currency or its substitutes, as much as shall be required, but not to exceed a total sum of $500,000,000.

If at any time $100,000,000 shall thus be withdrawn, the President is directed to communicate with the Governments of the gold-standard countries and suggest that by mutual agreement the mint price of gold be somewhat lowered enough to result in a stable measure of value in the gold-standard world without being obliged to retire noninterest-bearing paper currency to make a place for gold money.

Now I would ask the Senators to compare the other methods proposed for controlling the purchasing power of money and note how inadequate they are. In neither of the bills that are before this committee is there any provision for retiring paper money to offset the increase in the volume of money that will come from lessening the percentage of money to be held as bank reserves. There ought to exist in the national board a power to retire as much paper money as the maintaining of stability shall require. None of the bills before this committee have in them the necessary provisions, and, therefore, are vitally defective. The House committee's bill has stricken from it the requirement that stability shall be maintained and then provides no way whereby paper money can be retired permanently.

Furthermore, in neither of the bills is there any plan for meeting an excess volume of gold.

But I have faith that this Senate committee, composed of you men, who for a lifetime have battled for stability in money, and at a time when to do so was likely to prove unprofitable to you personally, can now be depended upon to provide for stability in the bill to be reported to your colleagues.

VIII.

I am now ready to take up the administration's proposal for the establishment of a Federal clearing house for the banks of our country so as to provide for the free transfer of money and credits throughout the Union, or that only a small charge shall be made.

This proposed system is largely copied from a system in Europe. In Germany, for example, any depositor in the main office of the Bank of Germany or any of its 493 branches can transfer credit to any other of the said offices without cost. The explanation is that the bank has the full use of the money during the time it is in its possession. The bank or branch issues a red check which transfers the title to a credit; that is, the party who receives the transfer is credited with the amount. If cash is required, then a very small charge is made. This small charge for cash results in the more frequent transfer of credits, thus increasing the number who are placed on the books of the bank as depositors, and in that way the business of the bank is increased. This system of free transfer of credits is one of the principal attractions of the Bank of Germany. (S. Doc. 508, for 1910, p. 171.)

Senator HITCHCOCK. How would you get that to be made here where there are no individual depositors in the reserve banks?

Mr. SHIBLEY. I am coming to that in just a moment, Senator. This system of free transfer of credits is one of the principal attractions of the Bank of Germany; but a handicap is placed upon this bank of issue by not allowing it to pay interest on deposits.

Mr. NELSON. This bill, you mean?

Mr. SHIBLEY. I am speaking now of the German system.

France, Austria-Hungary, and the other countries that possess a central bank and branches have a similar system for the free transfer of credits throughout the nation. The Swiss were without this form of a bank until 1905. The amount of free transfers in little Switzerland for the first nine months of 1908 was 7 billion 612 million francs, the equivalent of 1½ billion dollars. This is a remarkable showing.

This Swiss system and the other European systems are merely between the central bank and its branches. Our proposed Federal reserve bank plan is an improvement, for it should place in a single system all of the 25,000 privately owned banks, but only for the purpose of simplifying the expense of transferring money and credit and for supplying the banks with an elastic volume of money. The system should be such as to establish competition in the loaning of money. The 25,000 banks should be coordinated for the purpose of more cheaply transferring money and credits. To this end 12 regional reserve banks should be established throughout the United States on the mainland, and each of the privately owned banks that join should keep with the reserve bank of its district a deposit sufficient to pay the daily balances against it. That would not call for any more funds of the private banks than their business shall require, and I suggest that the Federal board be required to specify from time to time just what the amount of reserves shall be, instead of stating the percentage in the bill. In that way more of the State banks and trust companies will join the clearing-house system; in fact, the plan as a whole should be made so inviting that every bank in the country will join, being obliged to do so in order to meet the competition of the banks that are in the system. The State banks and trust companies can be in a class by themselves in so far as the rediscounting of commercial paper is concerned, as I presently will point out.

There is another feature in the bill which should be changed, I believe; it is the provision fixing the rate at which the banks shall transfer funds throughout the country. The declaration is that "it shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection," certain checks and drafts. (Sec. 17, p. 33, of House bill, lines 13–19.)

My suggestion is that the decision as to the rates to be charged should be by the national board after examining the facts in the case. That would conform to established principles. For example, the Interstate Commerce Commission conducts hearings as to what shall be the proper rates to be charged, and then a decision is rendered; also, rates require changing, and nothing short of a commission or board can handle the situation. Congress ought not to attempt to do it. The fact is that in the proposed banking and currency law the city bankers have secured in the bill a benefit for themselves at the expense of the country bankers, as was admitted in the hearings before this committee. Mr. Wexler and Mr. Reynolds stated that the existing plan would do as I have stated, and both gentlemen recommend that the naming of the rate in the bill be stricken out.

I wish now to compare the proposed Federal clearing-house system with the subtreasury plan.

In order to establish a Federal clearing-house system there must be provided the Federal reserve banks, or their equivalent, to act as clearing houses for the several States and districts, forming them all into a single organization with deposits by the banks in order to pay the daily balances. But no capital stock is required for this clearing-house system, nor any more bank deposits than sufficient to pay the daily balances. I am speaking of this clearing-house system. The other functions of the reserve banks I will consider presently.

Let us compare the subtreasury plan. It is clear that the subtreasury plan does not provide for the greatly needed clearing-house system for the entire Nation, and the simple and effective method which the subtreasury plan would provide for issuing the elastic volume of paper money and retiring it can be provided for in the Federal reserve banks. And these banks would have the additional advantage that each would be controlled by a board of directors representing the people in the several regions of the country.

For these reasons I am unqualifiedly for the Federal reserve bank system.

I now pass to other features in the Owen-Glass bill and will compare them with the successful systems in Europe.

IX.

I wish to direct your attention to the fact that European experience has completely demonstrated that an elastic volume of paper currency is of great benefit in connection with the gold standard. England has no such system, while France and Germany have. The comparative results are that while England changed her bank rate 186 times in 20 years, the French people with their elastic volume of paper currency in connection with their gold money changed the bank rate only 29 times, and in Germany the number of changes was but 116.

Senator POMERENE. What length of time?

Mr. SHIBLEY. Twenty years.

The CHAIRMAN. The fluctuation in the bank rate was not great in Germany and France.

Mr. SHIBLEY. That is so; that is very important.

Senator HITCHCOCK. I believe that the bank rate changes only once a year in France?

Mr. SHIBLEY. Only 29 times in 20 years, and this was largely caused by trouble in this country and in England.

The CHAIRMAN. I will call the attention of the committee to the fact that I have put into the record the changes in the interest rates in these various banks for the information of the committee. That was put in several days ago.

Mr. SHIBLEY. Of course, the more frequent the changes in the bank rate the greater the disturbance to business.

Furthermore, in England the changes in the bank rate have been more violent than in France.

These facts demonstrate that an elastic volume of paper currency in connection with the gold standard is a great benefit. Therefore the Owen-Glass bill with its provisions for an elastic volume of paper currency in connection with our gold standard is in line with modern monetary science.

X.

Furthermore, the experience of every nation in Europe demonstrates that an elastic volume of paper currency should be based on short-time commercial paper, the same as is proposed in the Owen-Glass bill. It is the cheapest and most effective way for enabling our business men to produce goods and distribute them; and, as we are in competition with the countries of Europe, we should supply our business men with the same cheap and effective system.

A paper currency that requires the purchase of bonds by the banks will not do because the banks would be required to invest a portion of their capital in bonds to hold for the times when they temporarily would need more money. Such an investment in bonds would transfer part of the bank's capital from commerce, where it is greatly needed at present, to a fixed investment, and no aid could come to commerce only when a temporary need for an enlarged volume of paper currency should arise; whereas, to expand the volume of paper currency upon the ample security afforded by short-time commercial paper and the indorsement of the banks will result in the use of the bank's entire capital in commerce all of the time. That is a determining factor. It is the system used in Europe by our people and we should do equally well by our people.

XI.

In the next topic I shall be obliged to point out wherein the bill before this committee is not in line with the successful currency systems of Europe, and before going into that I desire to briefly review the points considered and show that I am in complete harmony with the main features of the proposed system.

The basic principle in the proposed system is that the people through their Government shall control the purchasing power of money and do so in such a way as to maintain stability therein. The establishment of this system will mark the greatest advance in monetary science for the past 100 years.

Another far-reaching improvement is the proposal to place the private banks of the country in a unified system for the entire country for cheapening the cost of transferring funds—the Federal clearing house.

XII.

But the Democratic House Committee on Banking and Currency has stricken out the instruction in the bill that the control of the price level shall aim at stability. And several other important features of the administration bill have been stricken out by the Democratic House committee. The House caucus accepted the leadership of the House committee, and so the administration bill has been changed so that it provides that the people through their Government will be less able to protect themselves.

First, the House committee has provided that of the members on the national board who are to be appointed by the head of the Government, who himself was elected by the people and is responsible to them, two of the four on the said national board shall be of the

parties which the people rejected at the polls. The wording is that "of the four members thus appointed by the president not more than two shall be of the same political party." That is lines 13 to 15, section 11.

This proposal is that the people shall not name a board that fully represents them, but shall name two of the four who shall represent the parties which the people rejected. The people at the polls rejected the Republican organization and the Bull Moose organization, yet the Democratic House committee has proposed that the administration bill shall be emasculated by providing that these rejected organizations shall have two representatives out of the four who are to be appointed. Thus the people's victory at the polls last November is being lessened.

Senator HITCHCOCK. You are ignoring the fact that there are three from the Cabinet.

Mr. SHIBLEY. But of the four who are to be appointed, one-half are to be members of opposite parties.

Senator HITCHCOCK. Would you think it wise to have a Senate solidly of one party? Is it not better, in Government affairs, to have a minority voice represented?

Mr. SHIBLEY. Yes; but what does a majority do? It goes off by itself in caucus and simply comes in and says, "Take this bill or nothing."

Senator HITCHCOCK. Not with my consent.

Mr. SHIBLEY. The party caucus is a necessity, if platform pledges are to be carried out.

Senator NELSON. You know that on the Interstate Commerce Commission we have always had both parties represented.

Mr. SHIBLEY. Well, but that may not be ideal.

Senator NELSON. We are not after ideal things; we are after practical things.

Mr. SHIBLEY. Gentlemen, there has been a great change in this country. The people have now come into power, and they are going to stay in power, as they have a direct primary which they will use effectively, if necessary.

The Democratic House Committee on Banking and Currency went much farther against the people's interest than the instance I have just cited. It has provided that either one of the members of the parties rejected by the people may, in times of emergency, absolutely veto any proposal by the national board that one or more of the Federal reserve banks not in the zone of trouble shall aid the others. You will find that in line 12, page 21, of the bill.

Senator REED. In that connection, you notice that on the Federal reserve board when the plan is in full operation, each member goes in for eight years, so that you might have a board that had been named by a President representing one national policy, and there might be an election, completely, as far as the people could, turning that administration out and changing the policy, and yet this board would remain there and would not be affected by that change unless they were arbitrarily removed.

Mr. SHIBLEY. My suggestion is that the President be authorized to recall any of his appointees on that board in order that the people through their Government shall control. If the people elect a man

to carry out their policies, and then he is unable to do so, the people will have been euchred out of their rights.

Senator BRISTOW. Who will recall him?

Mr. SHIBLEY. The people will attend to that at the primaries.

Senator BRISTOW. Suppose they can not do that for four years: what will happen?

Mr. SHIBLEY. That is the existing system of government.

Senator REED. The point I am calling attention to is this, and I think the committee ought to seriously consider it: It is proposed to establish a board, and when the law is in full operation you will have a board of seven men. One of those men will hold for two years, one for four years, one for six years, and one member will hold for eight years. Under this plan a President's successor will have no appointment for two years. So that this board, when once made up, might be composed of men all of whom believed in a certain financial policy. It might prove detrimental to the country in the opinion of the people. They might make an issue of that before the country, and then there might be an overwhelming vote against the policy which the board believed, and yet the President, unless he arbitrarily removes the members, would be powerless to change that policy, even though the people had voted for this change.

Mr. SHIBLEY. That demonstrates that the proposed system is entirely wrong, and I call attention to the German system, in which the chancellor himself controls the price level. Here in this country we should do the same thing by making the President's appointees subject to recall; and they control the price level, because the most important thing in this country is the control of the price level through which our business is conducted.

Senator BRISTOW. You say that the chancellor in Germany controls the price level? Do you mean he controls the rise and fall in prices?

Mr. SHIBLEY. He controls the bank rate.

Senator SHAFROTH. He influences the bank rate?

Mr. SHIBLEY. Yes.

Senator BRISTOW. But there is a rise and fall in prices there, the same as in this country.

Mr. SHIBLEY. He controls the bank rate.

Senator BRISTOW. Does he put it up and down himself?

Mr. SHIBLEY. He possesses a veto power as to where it shall go.

Senator HITCHCOCK. But the membership of the Direktorium does not change; it consists of men appointed for life.

Mr. SHIBLEY. My understanding is that the chancellor has the controlling power to say what the bank rate shall be.

Senator HITCHCOCK. My recollection is that the Direktorium consists of men whom the Kaiser appoints for life.

The CHAIRMAN. The curatorium consists of the chancellor of the Empire and the first minister of finance and three members of the Bundesrath, corresponding to our Senate.

Mr. SHIBLEY. With the committee's permission, I will insert the exact facts later in the record.

Senator HITCHCOCK. My recollection is that the Direktorium controls the rate of interest, and the Central Ausschuss has the power of veto on the decisions of the Direktorium so far as they affect loans

to the Government; and the Direktorium, I think, is elected by the Bundesrath, which corresponds to our Senate, so that the Kaiser practically selects one board and the Bundesrath another and the stockholders another.

Mr. Shibley. That is so, but that does not decide who it is that controls the bank rate. I think the law states that the chancellor shall control the bank rate, because the control of the bank rate protects the very vitals of the German Empire.

Senator Bristow. I understood that you claim that the chancellor of the German Empire could control the price level by the control of the volume of this currency. If he can do that, and if his ideas are carried out, and he properly administers this power, there would be no fluctuation of prices in Germany.

Mr. Shibley. His idea is to keep all the gold they can get.

The Chairman. What you intended to say was that he influences prices, and not absolutely controls them so that they never fluctuate at all, did you not?

Mr. Shibley. No; you are——

The Chairman (interposing). The Senator understood you to say there was no fluctuation of prices because the chancellor controlled them. You inteded to say he could influence them by fixing the rate?

Mr. Shibley. He controls the price level, because he controls the rate.

The Chairman. You mean he influences them, not controls them, do you not?

Mr. Shibley. He controls the price level inside the German Empire. If he puts the rate up to 10 per cent, he controls the price level.

Senator Shafroth. The price level of wheat, for instance, is controlled by the London market.

Mr. Shibley. I am speaking about the purchasing power of money. I am speaking about the price level in Germany.

Senator Nelson. His theory is we can control it in this legislation.

Mr. Shibley. What does the Bank of England do? It raises the interest rate; and does not that drive the price level down?

Senator Shafroth. It has that tendency, but it would not affect the price of wheat.

The Chairman. He is not speaking of an individual item; he is only speaking of a great group of items. He is speaking of the influence upon it, and not the absolute control of it. The chancellor may influence it, but to say that one man absolutely controls the prices, I think is wrong. It can not be done.

Mr. Shibley. I am speaking about the price level, and the Senator from Colorado is speaking about the price of a particular commodity. In using the word "control," I think we should get into our minds thoroughly the fact that the Bank of England exercises that power when it raises the interest rate. When they make a rate of 10 per cent, it makes prices drop somewhat. That is control within that country. Thus the Bank of England is able at will to draw gold from all over the world, just as the German chancellor is able to draw gold.

Mark you, gentlemen, the proposal in the House bill is that the people's control over the Federal reserve system in time of trouble shall absolutely be discontinued by providing that any one of the

representatives of the party not in power in the land shall become the controlling power in the monetary system. Could a worse proposal be offered?

Thus, the Democratic House Committee on Banking and Currency have seriously emasculated the administration bill, and the House accepted the committee's leadership. Nine of the Democrats voted against the bill, having fought for the restoration of measures for protecting the people's interests.

In connection with what I have shown, please bear in mind that the House committee, against the protests of a minority of the Democratic members, further restricted the power of the people's representatives on the national board by providing for a national committee of the representatives of the bankers to sit with the people's representatives, and not providing that the merchants and the manufacturers, wage earners, and others be accorded representation along with the bankers. This special privilege for the bankers is utterly opposed to the doctrine of self-government by the people, and nowhere in Europe, as we have seen, are the bankers given the control in any way over the organization whereby the monetary system is regulated. Thus the people of Europe are protected. That is the European system.

XIII.

And it is the system which the administration in this country is aiming at, and the chairman of this Senate committee is vigorously championing it. For example, in answer to Banker Talbert, of New York City, the chairman of this committee said:

> The bankers have no more right to ask to take charge of the governing functions of the United States proposed to be exercised by the Federal reserve board than the railroads would have a right to demand control of the Interstate Commerce Commission, which is intended to regulate them in the interest of public justice. The bankers have no more right to ask control of the Federal reserve board than the beef packers of Chicago to demand the right to administer the pure-food act, which is intended to regulate beef packing in the public interest.

That is a true statement of the situation.

I also especially commend the following by the chairman of this Senate committee in his reply to the New York bankers:

> I ask you in return, "Shall the control and domination of the banking business of the United States, including note issues, bank credits, and the cash reserves of the banks, be retained unconditionally in the hands of certain men like yourself for mere money-making purposes without responsibility to the people of the United States, and shall men like yourself exercise an invisible government over the commerce and industry of the United States and without control?" The issue is well drawn by you. Either a half dozen private persons in the United States will continue the control and domination of the banking business, of the credit business, and therefore of the commerce and industry of the United States, or the Government of the United States must assume so much control as is essential to safeguarding the commerce and industry of the Nation in the interest of all the people including the banks.
>
> You ask me, "Is there wisdom or safety in placing such power in the hands of a board of seven individuals having no personal interest in the banks?"
>
> I ask you, in return, "Is there wisdom or safety in leaving such power in the hands of a like number of bankers in Chicago and New York, having a personal interest, but who have no personal responsibility to the people of the United States and who have demonstrated their inability, if not their unwillingness, to protect the stability of the commerce of the United States?"

The very fact the Federal reserve board has no personal interest, but acts from a governmental and altruistic standpoint in the interest of all of our people, in the interest of every branch of commerce and industry of the United States, the banks especially included, is the best answer to your objection. It is true there are quite a few thousands of bankers, but there are 90,000,000 people under our flag who are not bankers. (S. Doc. 144, 63d Cong., 1st sess., pp. 4, 5.)

I am presenting facts which show that a fundamental difference exists between the administration and the House Committee on Banking and Currency, whose leadership has been accepted by the Democratic House.

XIV.

In this connection please note the change which the House committee has made in the bill, proposing that the rate of interest which the bankers shall receive on their investments in the Federal reserve banks shall be excessive. Even the Aldrich bill proposed only 5 per cent return, because there would be no risk from loss, such as there is when capital is loaned in commerce. Government bonds will float at 3 per cent, and that probably is the rate at which the people would gladly take the investment proposed in connection with the Federal reserve banks. But the House committee proposes that upon the investment which it is proposed that the bankers shall make by the transfer of some of the commercial paper on hand the rate of profit shall be 5 per cent plus 40 per cent of the net earnings above the maintaining of a 20 per cent surplus by the reserve banks. I refer you to section 7, page 13, lines 5 to 9 of the bill.

Bad as this seems it is much worse, for that 40 per cent for the bankers would be not alone on what their capital would earn, but includes the huge profits from the issuance of paper money and the use of Government deposits.

I have not yet finished pointing out the changes in the administration bill by the House committee. Look at section 19, entitled "Refunding bonds." The administration was liberal with the national banks in this section, but the Democratic committee went much further and struck from the bill the words "without the consent of the Secretary of the Treasury," in connection with the provision for the retirement of bank money, so that the bill as amended reads:

No national bank shall in any one year retire more than 5 per cent of its special-privilege bank money.

That is line 1, page 35. Thus the Secretary of the Treasury is not to be permitted, if the Democratic House can have its way, to permit the retirement of more than 5 per cent annually of the bankers' money. But that favor to the bankers is small as compared with the proposal inserted by the House at the end of the administration's section on this general subject. Here is what the House committee proposes:

Meanwhile every national bank may continue to apply for and receive circulating notes from the Comptroller of the Currency, based upon the deposit of 2 per cent bonds or of any other bonds bearing the circulation privilege, but no national bank shall be permitted to issue other circulating notes except such as are secured as in this section provided or to issue or to make use of any substitute for such circulating notes in the form of clearing-house loan certificates, cashier's checks, or other obligation.

This illustrates the tendency of the majority of the Democrats in the House Committee on Banking and Currency. The Democrats in the committee who stood for the people's interests became insurgents, and it is up to this Senate committee to pass upon the emasculated administration bill.

XV.

I now take up again the consideration of the successful elements in currency and banking in Europe, and will compare the proposals in the administration bill.

Beginning in 1870, during the Franco-German War, the paper currency in France became full legal tender, and the results have been so beneficial as to cause Germany, in 1909, to adopt the same system. Therefore we should study with great care the reasons why Germany changed from a nonlegal-tender bank note to one that is a full legal tender. First, let us note how France has built up her wonderful gold reserve, the largest pile of gold anywhere in the world.

The way the French Government has built up its gold reserve of 4,000,000,000 francs, amounting to $800,000,000, has been by exchanging legal-tender bank notes for the gold. That is a very simple process. Wherever the bank of issue through which the Government has operated has been able to buy gold it has done so.

In England, too, a full legal-tender paper money is issued in exchange for gold coin and bullion, and the amount of the precious metal thus on hand August 9 of this year in the Bank of England was the equivalent of $177,000,000, or less than one-fourth as much as the French gold reserve.

In Germany until four years ago the bank notes of the German Imperial Bank, through which the German Government operates, were not legal tender, and it placed Germany at a serious disadvantage, for the gold reserve could not be built up so well. The banks and the people took the gold because it alone would legally pay debts, whereas in France the paper currency was equally good with gold in paying debts, and so the banks and the people willingly kept the paper currency, and their Government took the gold as fast as it could get hold of it, and issued against an equal amount of legal tender paper money, and now that Government possesses the largest pile of gold in the world, although within the borders of France there is less gold than in Germany. On the other hand, the German Government, after 30 years of use of this nonlegal-tender paper currency, ran onto financial rocks in 1906 and 1907, and an inquiry was thereupon ordered by the Government. At the inquiry the head of the German Imperial Bank pointed out the disadvantages that had been experienced from the nonlegal-tender character of the paper money and earnestly asked for a legal-tender paper money in connection with the gold standard. This request and the discussion thereon by the commissioners is published in the volume entitled "The German Bank Inquiry of 1908." This volume is in the series published by the Aldrich Monetary Commission, while the subject matter is indexed under the title "Legal tender." Also, in the volume of the Aldrich commission entitled "Renewal of Reichsbank Charter" the official utterances of the Government in proposing the legal-tender provision are set forth, pages 97 to 103, and the resulting law is stated on

page 264. Important quotations I wish to include in a note, if that may be done.

The CHAIRMAN. If there is no objection that permission will be granted.

Mr. SHIBLEY. After the legal-tender bank notes were supplied in Germany, the gold reserve was steadily built up and in four years it was twice the size it was in 1906 and 1907. On August 9, this year, the volume was $350,000,000, being nearly 70 per cent of the outstanding paper currency, as compared with about 33⅓ per cent in 1907, the date when the German monetary system was on the rocks, as I have said.

And yet, in the Owen-Glass bill, approved by the administration, the proposal is that here in the United States we shall use a crippled legal-tender paper currency, making it receivable for public dues only, and not a legal tender for private debts, and therefore inferior to the gold money. To establish such a system will bring upon us the same difficulties that the German people experienced for 30 years. The explanation of this proposal in the Owen-Glass bill, approved by the administration, is that Chairman Owen and the others who framed the bill did not have before them the facts that I have pointed out. The Senate committee had only just been named, and the details concerning the German experience was not known to the framers of the bill. In fact, the German experience was not placed before this committee until a few moments ago. Am I right?

The CHAIRMAN. I will say in that connection that I think these notes ought to be legal tender for the reason you have stated, and because it has been found by England, France, and Germany that legal-tender notes were the better public policy.

Mr. SHIBLEY. Has the record contained the facts that I am stating before the committee at this time?

This question is a new one in connection with the proposed banking and currency law for the United States. Such being the case, each point is to be carefully weighed. In that connection I simply direct your attention to the incontrovertible fact that the German monetary system resulted in such difficulties in Germany in 1907 that there was an official Germany bank inquiry. A commission was appointed and experts were examined. The commission then discussed the situation, and then the German Government proposed a bill for the amendment of the German act, and it was adopted in 1909.

In that proposal it was asked that the notes of the central bank of issue be made legal tender, and the law so declared. This is article 3 of the law of June 1, 1909, concerning changes in the bank act. A literal translation of the wording of the German law is: "The notes of the Reichsbank are legal tender." You will find that on page 264 of the Renewal of the Reichsbank Charter, Senate Document 507, of 1910.

That was the principal change in the law, and the results of the change were that no longer was it at all difficult to increase the volume of the central gold reserve. The banks and the people were content to use the paper currency, because it was full legal tender. Up to the time of the change, however, nothing but gold was a legal tender, and the consequence was that as the gold could not be in the tills of the banks and in the central reserve at the same time the central reserve had to suffer. The principle is self-evident. The

reason why this principle was not recognized in the German law of 1876 was that the bankers and their helpers interfered, just as they are interfering here in the United States. Then, after 30 years of use of the bankers' plan by the people, the system broke down completely, while the neighboring countries were possessing larger and larger gold reserves. On this point I quote from the address by Dr. Wagner as a member of the commission that carried on the German bank inquiry of 1908:

If we sum up all this, we find that these great banks and bank systems of Europe received, between 1890 nad 1902, 4 billion and 300 million kilograms of gold, but in this improvement the German Reichsbank has no share whatever.

And he added:

Well, this is certainly something to think about. If, in a period of the most gigantic augmentation of gold through new production known to history, a period in which the increase is still continuing to progress, the Reichsbank has not permanently augmented its gold supply, or could not augment it, we can see what a difficult position we are in. We must reckon with the facts.

You will find that in the German Bank of Inquiry of 1908, page 398 of volume 1 of the edition of the National Monetary Commission.

The reason why the banks of issue in the leading countries other than Germany have been able to build up central gold reserves was that the paper currency issued in exchange for gold was legal tender, thereby permitting the gold to stay where it belonged—in the central reserve—ready for use. These facts concerning the legal-tender paper were outlined briefly by one of the German commissioners in the German Bank of Inquiry. He enumerated France, England, Austria-Hungary, Italy, and Africa, saying:

In short, we could point to the fact that it is the almost universal practice of the leading nations of Europe, as regards their central banks and the notes issued by these, that they shall be legal tender.

That statement ought to be indelibly fastened upon the mind of each member of this Senate committee, namely, that the almost universal practice of the leading nations of Europe has been and is to protect the central gold reserve by using a legal-tender paper currency.

Senator NELSON. That there may be legal-tender paper currency redeemable in gold?

Mr. SHIBLEY. Surely that is what it ought to be here.

Yet, with these indisputable facts before us, and also the fact that Germany actually lost the gold standard temporarily because of a failure to provide a legal-tender paper currency, the university professors in the United States who are specialists on money and banking have not come forward and told you these facts. There has been a "conspiracy of silence," except as they have taken active steps to falsify this European history.

Senator POMERENE. Why should they be interested in it?

Mr. SHIBLEY. They must be "sound-money" professors or they would not hold their jobs.

Senator POMERENE. Do you make that charge general against all these professors of finance?

Mr. SHIBLEY. The difference between the American system and the European system is that in Europe the professors are appointed by their fellow experts. In this country they are selected by boards of directors composed largely of business men, who get their dona-

tions from the rich, and the professors have to express sentiments that will draw the money of the rich. There are a great many private corporations, such as the Chicago University, the Rockefeller University, that are of that type.

Senator POMERENE. Rockefeller is not a general rule.

Mr. SIBLEY. We have all these institutions supported by private wealth, and the professors are selected by the board of directors and can be discharged at the end of the year, and therefore they have got to keep in touch with that sentiment.

Gentlemen, in this connection I wish to say that in 1898 there was called to my attention the fact that there was published in the Chicago Tribune one morning a two-column article by a university trustee of Northwestern University in which he laid down principles which he thought should govern the hiring of professors in American universities. He said that the only proper method was to see that the professors of political economy should be kept within the lines laid down by the board of directors. He said that was the only proper system.

I went out to interview him. He stated that he had received from all over the United States very favorable comments in regard to that method of controlling the teachings in the universities. I called on the other members of the board of trustees, and in every case they said the professors must keep within the lines or walk the plank.

After that I interviewed the trustees of the various large universities of the country, and I found, without exception, that they said in each case, when it comes down to these close hot questions, the board of directors have got to control, whereas in Europe the professors are left absolutely free, having been selected by fellow specialists. They are given a life tenure, and they are free to say what they choose.

So on the question of bimetalism I found that in the United States the university professors had concealed the fact which the British commission had stated or were falsifying the fact.

I quoted Gen. Walker as to why it was. The excuse is that the people are not to be trusted to control the volume of paper money. I brought this forward to show you how little value you can place upon the testimony of these men. They have not come forward and stated to you these facts about Germany. I know of at least on instance where there has been an attempt to conceal the facts. For example, in these hearings Prof. Sprague interrupted Banker Reynolds and said:

> Mr. Chairman, might I be permitted to make a statement at this time?

The chairman said:

> Yes; gentlemen, this is Prof. Sprague, of Harvard University.

who then said:

> Prof. SPRAGUE. The issues of the Reichsbank of Germany were made legal tender only three years ago in the last revision of the charter. They had been accepted quite readily by the other banks, and the proposition to make them legal tender was in no sense a banking proposal.
>
> They were made legal tender because it was thought that in case of war the notes would be more serviceable for the Government, since in case of war a very large issue of Reichsbank notes will unquestionably be made. It was thought desirable to insure the general acceptability of those notes for that reason and for that reason alone.

Similar is the case of the Bank of France. The notes were made a legal tender at the time of the Franco-German War, in 1870, in order to secure their general acceptability throughout the country. The Government was at that time, through the Bank of France, making large loans, and the notes were going into circulation in enormous quantities, and were not, at the moment, redeemable in gold.

Senator SHAFROTH. That was considered, then, the strengthening feature to the currency, was it not?

Prof. SPRAGUE. Yes; but not for banking purposes at all (p. 297).

In Germany the Government, even after the actual breakdown of the plan for building up a large central gold reserve was met with opposition by the bankers and their so-called experts, who craftily worked against the establishment of legal-tender bank notes for the bank of issue or any other bank. Thus in Germany there were and are to-day the same class of "sound-money" advocates as here in the United States, men who falsely assert that the reason why it is inadvisable to issue legal-tender paper currency is because the people, if they know how to do it, will, through their Government, overissue it, in order to rob creditors. The existence of this conspiracy in Germany, largely through a conspiracy of silence, is testified to in the following words by the chairman of the 1908 commission on the German bank inquiry, when he came to address his fellow commissioners on the subject of legal tender. He said:

I would call you attention, for the purpose of full consideration of the question, to several aspects of the legal-tender question which the experts whom we have hitherto listened to have either not discussed at all or have only touched the surface.

There you have it. The German committee that sat and listened to the "experts" found that in the German bank inquiry of 1908 the said experts did not at all discuss the thing which afterwards proved to be the remedy, or they merely touched the surface.

Upon the main point at issue, the protecting of the central gold reserve, the president of the German Bank of Issue and the chairman of the commission of inquiry said:

At the hearing of the experts last spring they treated this question of gold reserve almost exclusively from the standpoint of an enlargement of the Reichsbank stock of gold and with regard to times of peaceful and normal economic development and scarcely considered that the legal-tender quality of the notes may also perhaps be of importance in protecting the store of gold in possession of the bank, particularly in political or economical crises.

This is as severe an arraignment of bank experts as could be made. Subsequent events have demonstrated that these bankers were so badly influenced by their previous teachings and their banking environments that they deliberately recommended to the nation that which would have made bad conditions much worse. The original trouble came from accepting the advice of their fathers, who had been connected with the bankers 30 years before. You may be asking in your minds how bad were the conditions in Germany in 1908. I will quote the utterance of the president of the German bank, who was legally responsible for maintaining the gold reserve. I will quote the words which he placed in the published report of the commission of inquiry. He said:

Last year [that is 1907] we were not far from a one-third covering of our notes. The Reichsbank dispelled the danger at that time by drawing in gold, making great sacrifices to do so, but it had not at its disposal any means of

keeping the danger off unconditionally. I hope and wish that we may be preserved from the recurrence of such a crisis.

Gentlemen, at that time a host of suspicions were spread about by foreign newspapers relating to our general condition. It was declared that the entire economic development of Germany was facing a great collapse; it was prophesied that our great institutions would not be able to maintain their solvency; it was predicted that the Reichsbank would no longer be in a position to protect the gold standard, to maintain the one-third covering of the notes; it was asserted that the Empire itself was in such confusion and disorder that it did not have sufficient means at its disposal for its domestic and current needs and that it could not raise them owing to the lack of the spirit of sacrifice on the part of the Reichstag and of the people; the feeling was sought to be aroused that if the Empire was unable to meet even the needs of a time of peace it would be in no condition at all ever to provide the means to carry on a war. (P. 702.)

Such were the statements in some of the foreign papers, and I now will give you an inkling of what actually occurred.

The managers of the Reichsbank concealed from the public how little gold it had on hand against its paper money by publishing each week a statement giving its combined holdings of gold and silver. That this existed, this refusal to publish the amount of gold on hand is admitted in the published report of the German bank inquiry at pages 395 and 703. So you see the German gold standard was actually down and out temporarily. But by providing for legal-tender paper in combination with the gold standard all trouble was over. At this time Germany as a whole possessed more gold than the French Nation and more than any other country in Europe (p. 42, S. Doc. 507, 1910), yet the lack of a proper paper currency threw Germany into the difficulties that I have just described.

The president of the Reichsbank, in his argument to the members of the commission that was to decide upon the proposal for legal-tender paper to cure the trouble, said to the commissioners:

We are after all doing only what England and France did long ago. We have every inducement to win back the respect for German conditions, which has now and then been impaired abroad through malicious libels. (P. 704.)

Let us profit by those bitter experiences of the German people.

It appears that back in 1874 several of the commission that drafted the bill for a unified control of the German monetary system proposed a legal-tender currency in combination with specie, but the bankers succeeded in overruling them. The bankers acted selfishly. Now, after 30 years of struggle with a crippled paper currency in combination with metallic money, the German people in the year 1909, after the bankers' crippled system had collapsed, put in the legal-tender currency in combination with the gold standard, and all went smoothly. To-day the German central gold reserve is 70 per cent of the volume of paper currency, while in 1907 the volume of gold was probably less than the legal limit of $33\frac{1}{3}$ per cent.

Here in the United States the people's representatives, the progressive Senators and Congressmen, should profit by this German experience. Especially should we profit by the determination of the German Parliament to no longer pay any heed to the slanders and libels of the bankers that the people, even of the Teutonic subrace of the great Aryan stock, are robbers by nature and will overissue the paper currency, unless they are deceived by the bankers and other

teachers as to what paper money is. The president of the German Reichsbank in meeting that issue diplomatically said:

Gentlemen, I do not for a moment fail to recognize the seriousness and weight of the objections that have been urged against this measure. You are familiar with them also, gentlemen, and I refrain therefore from presenting them once more in detail. (Page 704.)

It is high time that the baseless libels by the bankers against the people's capability for self-government shall be exposed. The bankers and their assistants will of course object to legal-tender bank notes in the United States in connection with the Federal reserve banks. Mark you, I said "legal-tender bank notes," for our paper currency should be the obligation of the Federal reserve banks and not be Treasury notes, for reasons which I presently will state. What is needed is legal-tender paper currency in connection with the gold standard, and a refusal to provide it would doubtless place our country in the same difficult position that Germany experienced for many years. Therefore to listen to the bankers and refuse to provide a legal-tender currency would be criminal. The effects of a monetary system can now be foretold with almost absolute certainty, for we have at hand the facts of history concerning currency and banking in the leading nations. The difficulty, however, is that this Senate committee is bombarded by the bankers and others who are doing their utmost to keep from you the real facts of history. For example, the bankers stoutly denied for a time that the governing board of the Bank of England was controlled by the merchants and others who are not bankers, and there has been "a conspiracy of silence" about the collapse of the gold standard in Germany because of the crippled form of the paper currency. However, this Senate committee has pierced through the fallacies of much that has been placed before it, and will not succumb, I am sure.

I will insert at this point verbatim statements by leading Germans concerning the need for legal-tender paper currency.

At a session of the commissioners of the German Bank Inquiry of 1908 (Oct. 15, 1908) Hon. Chairman Havenstein, president of the Reichsbank Direktorium, said:

Permit me, gentlemen, before we enter into the discussion, to make a few introductory remarks upon one of these points, and that is the making the notes a legal tender, in regard to which, should it ever be enacted, the Bundesrat will soon be called upon to decide. And pardon me if, in view of the importance of this point, I should for once transgress to some extent the personal reserve which I must here impose upon myself. I am convinced, gentlemen, that the investing of bank notes with the quality of a legal tender is out of the question unless we assume first of all, as a matter of course, that our gold standard is to be absolutely maintained. The rocher de bronce of the gold standard is the redemption of notes in gold; no tampering, under any circumstances, can be premitted here. Consequently, I regard the theory of Dr. Arendt, even from the standpoint of bank policy, if the bank is not itself to destroy confidence in its good faith, as beyond the pale of discussion, besides being firmly convinced that it is absolutely untenable as a matter of law—the theory, namely, that the redemption of 1,000,000 marks in 1,000-mark notes or 20-mark notes could be broken up into 1,000 separate transactions relative to 1,000-mark notes or even into 50,000 relative to 20-mark notes. But, gentlemen, assuming the absolute maintenance of the gold standard, the redemption of the notes in gold and the discarding, therefore, of the idea of forced circulation, I would call your attention, for the purpose of a full consideration of the question, to several aspects of it which the experts whom we have hitherto listened to have either not discussed at all or have only touched on the sur-

face. In this body, whose counsel is of particular importance to the preliminary deliberations of the Bundesrat concerning the supplementary bank law, I am anxious that this question should be elucidated on every side and that its serious aspects should by no means be left out of account.

At the hearing of the experts last spring they treated this question almost exclusively from the standpoint of an enlargement of the Reichsbank's stock of gold and with regord to times of peaceful and normal economic development, and scarcely considered that the legal-tender quality of the bank notes may also perhaps be of importance in protecting the store of gold in possession of the bank, particularly in politically or economically critical periods. And even where one or another did touch upon such critical times, he fixed his attention mostly upon a war, and then only upon the period immediately following its outbreak, pointing out that it was a question at the utmost of only a few critical days, which could be weathered, and that making the notes legal tender and possibly the forced circulation of them might then become a necessity, but that it would be time to enact those measures then, and that they could be legally passed in a few days by the Reichstag and the Bundesrat—for the power of issuing an emergency decree is not provided for by the constitution of the Empire. But the possibility that we may have grave political crises when legal measures can not at once be enacted, and that a war does not necessarily break out overnight, but may be impending for weeks and months, producing constantly increasing uneasiness in the business world, hardly one of the gentlemen seemed to have thought about.

But, gentlemen, it is not necessary in this connection to think of war at all; we may go through protracted political or economic hard times in peace also. Are we really so absolutely sure that with us an economic crisis, a failure of confidence, an intense demand for money, a run upon savings or other banks, may not, under a conjecture of untoward circumstances, occur, even though, thanks to the elasticity of our central bank of issue, hardly to the same extent as in the United States?

The question whether we do not need the same defensive apparatus with which all our great neighbors, and particularly England and France, have long since provided themselves may at any rate be worthy of earnest consideration, even if we leave an actual panic that may seize upon the people at large and the business community entirely out of account. And it is very obvious that at such times every individual strives to put himself into a strong position financially, to have his resources mobile and available; that every bank, every public fund, every disbursing officer, savings bank, cooperative institution, and whatever else they may be called, will, or at least may, make a strong effort to secure for themselves the means of meeting all possible demands for payment, and therefore for greater amounts than are needed in normal times. It may likewise be assumed as certain that efforts to secure those means to pay, on the part of private persons as well as of the banks and other payment institutions, will be directed toward procuring as much as possible of that kind of money regarding which the possessor is sure that he can use it in payment under all circumstances—that is, money that is legal tender. Up to the present, however, gentlemen, it is only gold that plays this part.

That in such periods of long-continued, steadily aggravated crises an acute feeling of insecurity and unrest may pervade the business community in general, precisely because the creditor demands of his debtor the only unconditional kind of money—that is, gold—is conceivable; that this endeavor, manifested in larger or smaller strata of the population, these necessary efforts of the banks, disbursing offices, savings banks, etc., to procure this sole absolutely valid and disposable form of money, gold, may react strongly, and under certain conditions, to a dangerous extent, upon the Reichsbank and its stock of gold, is at least possible and perhaps probable; and this would happen particularly at a time when it must strive to guard its stock of gold with the utmost care, while as matters now stand it has no means of really protecting it.

Now, it seems plain that the investing of our bank notes with the legal tender quality would remove the chief motive which, under present conditions, impels great numbers of private individuals and notably banks and disbursing offices, to provide themselves specifically with gold and that in great quantities; and the number of people who will then apply to the bank to have notes redeemed will not, I believe, under any circumstances be a dangerous one, so long, of course, as the credit of the bank is maintained.

Gentlemen, it may be doubted—and I concede this at once—whether these possibilities will become realities, and how far the uneasiness and the imperil-

ing of business and the imperiling of our gold will extend in such crises. But, gentlemen, in forming your decision you will have to put this question to yourselves also: Whether the bodies that are responsible for the utmost possible security of business—and for the present, you, too, are among them—should not consider, judge, and prepare the measures required for such grave emergencies from the standpoint of the pessimist and of the man who goes, it may be, to the furthest limits of caution?

Gentlemen, it will have to be considered, too, whether it can be assumed as certain that we can not experience such crises in the next 10 years and whether the enactment of the supplementary bank law is beyond doubt the most appropriate means of attaining this security for our financial and economic dealings. For, gentlemen, that any special act, any special law would spread this uneasiness in tenfold measure, both within the country and abroad, can not be a subject of doubt.

And there is still another aspect, gentlemen, which likewise has not been touched upon. Last year we were not very far from a one-third covering of our notes. The Reichsbank dispelled the danger at that time by drawing in gold, making great sacrifices to do so, but it had not at its disposal any means of keeping the danger off unconditionally. I hope and wish that we may be preserved from the recurrence of such crises. But is it wholly inconceivable that such a crisis, and even a graver one, may again come upon Germany? Gentlemen, at such times if our notes were legal tender it might prove a powerful aid to the Reichsbank. Just think of it, gentlemen; the ministers of finance of the Empire and of the Federated States would only have to express their readiness—and they would surely do that at once—at the request of the Reichsbank to direct the state treasuries and public depositories to pass over their stock of gold for a few days to the Reichsbank. If this were done a few days before a day of heavy payments all danger that the Reichsbank might, even at the time of heaviest drain, fall below the one-third covering would be at once removed.

Finally, gentlemen, even in times when economic conditions are perfectly normal, the banks and other disbursing places would not need to keep as large a stock of gold on hand as they are now obliged to do on account of gold being the only legal tender; and this, gentlemen, might also have the effect of directly and permanently strengthening the Reichsbank's stock of gold.

Now, gentlemen, in the deliberations of the experts a great many objections were raised; objections, in the first place, based upon Dr. Arendt's theories. I think I may leave those aside. Much more weighty and grave were the objections expressed in a very distinguished quarter that such a measure might produce a very serious and undesirable effect in foreign countries as regards their judgment of our entire economic situation and their reception and valuation of bills drawn on Germany It was, however, at once pointed out by more than one person that an objection of this character could apply only to the question of the timeliness of such a measure in view of the grave attacks which had so recently been made abroad upon our entire economic organization. Gentlemen, in this connection I would beg you to consider whether, even if this objection should have been accorded full weight if we had proposed such a measure at the close of 1907 or in January or February, 1908, the same weight is to be attached to it now after the interval of a year and with the possibility that it may be months before the law is taken up in the Reichstag. Gentlemen, at that time a host of suspicions were spread about by foreign newspapers relating to our general condition. It was declared that the entire economic development of Germany was facing a great collapse; it was prophesied that our great credit institutions would not be able to maintain their solvency; it was predicted that the Reichsbank would no longer be in a position to protect the gold standard, to maintain the one-third covering of the notes; it was asserted that the Empire itself was in such confusion and disorder that it did not have sufficient means at its disposal even for its domestic and current needs, and that it could not raise them owing to the lack of the spirit of sacrifice on the part of the Reichstag and of the people; the feeling was sought to be aroused that if the Empire was unable to meet even the needs of a time of peace it would be in no condition at all ever to provide the means required for carrying on a war.

Gentlemen, we have in the meanwhile grown a year older, and what is actually left of these libels to-day? This year has taught, here and abroad, that our economic development, though it has again struck ebb tide, is, on the whole, undoubtedly sound; that the banks have not announced their insol-

vency—this year it is to be hoped, will show that the balance sheets of our great banks will present a different appearance from that of last year; the Reichsbank is stronger by half a billion; and the criticism that it can no longer maintain its one-third covering and the gold standard will, at all events, lose its whole force if the Reichsbank decides, either at the same time or before, to give to the public separate accounts of its holdings of gold and silver, and show that it does not, and need not, fear criticism.

The conditions in our country assume a different aspect, too, through the circumstance that the Imperial Government is about to submit a great scheme of taxation, and asks the Reichstag to place the Empire in a position of independence. I earnestly and confidently hope that the Reichstag will not be deaf to this appeal, and that the Empire will, speaking broadly, next year stand financially on its own feet.

Gentlemen, all these are elements which can not even by a malicious spirit be looked upon as signs of weakness and unsoundness, but as displaying, on the contrary, the marks of vigor and health, of determination and ability to act; and this may be the very thing to strengthen confidence in the Reichsbank notes, in the maintenance of our monetary standard, and in the soundness and security of bills drawn on Germany. We are, after all, doing only what England and France did long ago. We have every inducement to win back the respect for German conditions which has now and then been impaired abroad through malicious libels, but perhaps the best way to do this is to show determination, and to show that we are not afraid of criticism.

Gentlemen, I request you to consider also—particularly those gentlemen who raised the objections half a year ago, and they were men of great prominence—whether those objections would not in their eyes, too, perhaps, lose some of their weight if the bill were to be brought in, not within the next fortnight, but only after the lapse of some months; and if, in that time, our German economic conditions continue their healthy development, the Reichsbank remains strong, the German banks make a different showing to the public from that of the last hard year, the Bundesrat has submitted its great financial reform measure, and the enactment of this measure by the Reichstag may be looked for.

Gentlemen, I do not for a moment fail to recognize the seriousness and weight of the objections that have been urged against this measure. You are familiar with them also, gentlemen, and I refrain, therefore, from presenting them once more in detail. I have only wished to bring before this body, upon whose advice the Bundesrat lays great weight—particularly as it is on the eve of deciding whether it should incorporate the legal-tender proposition in the laws or not—considerations which have hardly been referred to, and which may be of some consequence in relation to the measure, and to ask you to take them into account in arriving at a decision. I present them to your judgment, and would be very grateful if that judgment were to remain a thoroughly independent one. We shall on our side, too, endeavor to learn from your arguments, and I can assure you that the dissenting voices also—the opinions of those who are opposed to this measure, and the reasons that they adduce—will now be doubly weighty with us. (German Bank Inquiry of 1908, pp. 696–704, Report of the National Monetary Commission.)

In connection with the draft of the bill proposed by the German administration for the amendment of the German bank act there is published an "explanatory brief," as it is termed, the third part of which is as follows:

Section 2 of the bank act states expressly that there is no obligation to accept bank notes for payments which legally are to be made in currency. As can be seen from the report of the eighth commission on the draft of a bank act (No. 195 of the documents, 2d period of legislature, 2d sess., 1874, p. 22), when the bank act was under discussion the suggestion to make the notes of the Reichsbank legal tender did not meet with general approval. The report of the commission assigns as a particular reason for this the circumstance that such a measure could not be considered, because shortly before, at the time of the discussion of the bill regarding imperial treasury notes, this quality had been denied the notes issued directly by the Imperial Government. The disinclination shown here to making the notes of the Reichsbank legal tender can be explained principally by the earnest desire then prevailing to do away with the existing paper régime and to place the metallic currency on a firm founda-

tion. This aim has been realized to such an extent that at the present time Germany's metallic circulation, and particularly that of gold coin, is abundant and sufficient for all demands of trade. On the other hand, bank notes also are regularly taken in payment, and for payments of large amounts they are used almost exclusively. It can not be denied that the present legal status of this mode of payment is somewhat uncertain. The legal disadvantage of the existing situation for the debtor is, in the first place, that the creditor has the privilege to refuse the acceptance of bank notes, which may put the debtor into demur. Even if thus far there has been no trouble of any consequence in this connection, nevertheless such institutions which have to make numerous payments, banks especially, generally feel obliged for precautionary reasons to provide themselves with a considerable stock of gold in order to be prepared for any demand for gold that they may have to meet.

Although the situation as created by section 2 of the bank act has not been such as to demonstrate the imperative necessity of an amendment of this provision, still the fact can not be overlooked that the present state of the law makes it possible that, as a result of contingencies that can not be foreseen, epecially such as are connected with financial crises, our monetary intercourse will be very injuriously affected, in such a way as to threaten the depletion of the stock of gold in the Reichsbank.

The bill, in making the notes of the Reichsbank legal tender, is simply giving a firm legal basis to the existing situation, i. e., the acceptance of notes as instruments of payment in all monetary transactions. The obligation of the Reichsbank to redeem its notes remains unchanged, as a matter of course. The essential characteristics of the bank notes—their security, the method of emission, the possibility of adapting the amount of their circulation to the fluctuating demands of the market—remain unchanged, as well as their legal character, which embodies a claim on the Reichsbank. The investment of the notes of the Reichsbank with the quality of a legal tender can not possibly result in any harm to the currency system, while it has the advantage of preventing trickish behavior on the part of creditors and of securing for critical times a discharge of pecuniary obligations in accordance with existing methods.

In proposing this measure the bill follows the examples of England and France. In England the notes of the Bank of England have been legal tender since January 1, 1834. In France the notes of the Bank of France were invested with this quality by the acts of August 12, 1870, and August 3, 1875.

The conferring of the legal-tender quality upon the Reichsbank notes does not in any way affect the maintenance of the gold standard, as is proved by the example of the Bank of England. In order to emphasize this more strongly the words "legally current German money," in paragraph 18, have been replaced by "German gold coin." This expresses beyond a doubt that even a single note of the denomination of 20 marks must be redeemed in gold, although the amount of 20 marks comes still within the limit up to which imperial silver coin is decreed a legal tender in article 9 of the currency act of July 9, 1873. (Reichs-Gesetzbl., p. 233.) That on the presentation of a number of 20-mark notes the amount exceeding 20 marks must on demand be paid in gold would, as it is, follow from the existing provisions pure and simple.

In view of the fact that the private banks of issue are not permitted to issue any notes of the denomination of 20 marks, it seems unnecessary to enact a provision with reference to them in accordance with the amendment of paragraph 18. The provision, therefore, in regard to the redemption of the notes of the private banks of issue remains unchanged; that is, according to paragraph 44, section 1, No. 4, of the bank act, redemption has to be effected in legally current German money. The unambiguous language used leaves no doubt but that "current German money" means metallic coin solely and not the notes of the Reichsbank, which are to be invested with the legal-tender quality; that is, moreover, expressly confirmed by the tenor of paragraph 8, section 2, of the bank act, which mentions current German money as part of the metallic stock.

Heretofore the Reichsbank has, indeed, as far as the provisions of section 18b allowed it free action, complied without exception to all legitimate demands of business. The necessity of maintaining unimpaired credit of the bank notes and the absolute stability of the gold standard demands that this remain unchanged. The management of the bank, therefore, will at all times earnestly endeavor in the discharge of the obligations imposed upon it with respect to redemption to act in accordance with the wishes of business.

The action of the Bank of England is restricted by the provision that in payments made by the bank itself its own notes are not a legal tender. On account of the peculiar nature of the giro business (the system of payments by means of transfers to and deductions from accounts current) and the large number of branches of the Reichsbank, there are serious objections to embodying a like provision in the bank act. The Reichsbank might otherwise be under the necessity, in the transfer of sums from one account to another, to make gold payments at its branches up to any amount, although it is altogether impossible for the bank to keep at all times and in all places gold reserves exceeding the regular demand in order to provide for such emergencies. Furthermore the organization of these branches, which are in most cases managed by a single official, necessarily limits the amount of their gold reserves. Until now such demands have not been made upon the Reichsbank; they may, however, occur in future. Under these circumstances the clause, which seems fair as regards the Bank of England, in view of its different business methods and the small number of branches, appears inapplicable in the case of the Reichsbank, just as, for like reasons, it could not very well be applied in the case of the Bank of France. Furthermore the obligation of the Bank of England to redeem its notes is limited in practice almost exclusively to London, the obligation of its branches to redeem the notes issued by them being relatively of slight importance.

It goes without saying that the Reichsbank will continue in the future, as it has done heretofore, to endeavor to make all payments as far as possible in the kind of money desired by its clients.

The objection raised by the commission which drafted the bank act against investing the notes of the Reichsbank with the quality of a legal tender on the ground that this was denied to the imperial treasury notes can not be sustained. At the present time the imperial treasury notes, which by the act of June 5, 1906 (Reichs-Gesetzbl., p. 730), have been limited to denominations of 5 and 10 marks, count for very little now in the circulation compared to the large issues of the Reichsbank notes. It should be particularly noted in this connection that already at the time of the debates relative to the draft of the bank act in the year 1874, according to the report of the commission (Reichsbank Documents, 1874, II, No. 195, p. 22), "a number of the members of the commission declared themselves to be of the opinion that it would be advisable to invest the notes of the Reichsbank with the legal-tender quality, and that such a step would have great advantages and no disadvantages for the public."

It is necessary in the interest of uniformity in the German currency system that the quality of a legal tender be reserved for the notes of the Reichsbank. If these privileges were to be extended to the notes of the private banks of issue, the result would be the creation of various kinds of money for Germany, and the uniformity of the German currency system, so laboriously acquired, would be again destroyed. Regard for the interests of the private banks of issue does not justify such a measure. In order, however, to enable the private banks to exploit the privilege of issue more thoroughly, the bill provides that the Reichsbank shall not only continue to accept in payment the notes of the private banks according to paragraph 19 of the bank act, but shall also exchange them for Reichsbank notes within their natural zone of circulation. By means of this provision, which insures to the holders of notes at all times the possibility of exchanging their notes for legal tender at all of the Reichsbank branches within their State limits, the notes of the private banks will be rendered much more available for the purposes of business than they have been up to the present. (Renewal of Reichsbank Charter, pp. 97–103, S. Doc. No. 507 for 1910.)

XVI.

Mr. Shibley. I now take up another issue. I point to the fact that if this committee of the Senate will provide in the administration bill that the paper currency to be issued shall be legal tender, as in Europe, it will open the way for the establishment of complete harmony in all parts of the administration bill.

The administration bill has several incongruous features due to the fact that important facts of history were concealed from those who framed it, this concealment being part of the "sound-money" deceit

and falsification that has been taking place. But, now that the facts of history are being laid bare to this Senate committee, the way is open for the establishment of complete harmony in all parts of the bill. And such a proceeding will result in a banking and currency system that will be an assured success in the highest sense and will be approved by the people in next year's campaign.

One of the most incongruous features in the administration bill is that while it proposes that the people through their Government shall control the national board, yet in the same bill there is a proposal that the bankers shall control the boards of directors of the 12 banks of issue. I use the term "banks of issue" in order that the exact facts in the case will clearly appear.

This proposal that the bankers shall control the banks of issue in this country, except as their acts may be vetoed by the national board, is not fair to the people, and probably would not be consented to by the people at next year's primaries nor at the general election. And they ought not to consent, for the reasons that I am presenting.

Senator CRAWFORD. Why should not the people be allowed to subscribe?

Mr. SHIBLEY. I shall come to that matter, and show you that there should not be any capital stock in a public corporation.

And the people ought not to consent, for the reasons that I am presenting. Furthermore, in not one of the leading countries in Europe are the bankers permitted to control a bank of issue, subject to a veto power in a Government board. In other words, in Europe it is recognized, as it ought to be, that a bank of issue should be controlled by a board of directors representing the entire State and not representing merely the money lenders.

And in our great country there is every reason why our 12 banks of issue to be located in the various regions of the country should be controlled in the interests of the people, and not be controlled in behalf of the selfish interests of the money lenders.

I am confident that you gentlemen of this committee are seeing the situation from the people's standpoint, and will be truly their representatives.

The way out, and it is a simple and practicable road to travel, as I will fully demonstrate, is to recast section 3 of the bill and outline therein all of the principal powers and duties of the Federal reserve banks, in place of the existing section 3 which provides that capital stock be supplied by the bankers, in what should be a public corporation. That plan for capital stock to be contributed by the bankers in connection with banks of issue is the fundamental fallacy. Permit me to give my views as to how that fallacy came to be incorporated in a bill which, in its outlines, is the most progressive of any that has ever been considered by any nation.

I have outlined to you the trickery whereby the creditor class promoted their self-interests from 1867 to the year 1900, when that class lost its balance of power in the "machine rule" government of the United States, the result being that the trustocracy provided for a $500,000,000 paper-money inflation on top of too much gold money.

Senator CRAWFORD. Is not this trustocracy the creditor class?

Mr. SHIBLEY. No; they are down and out.

Senator CRAWFORD. Who? The creditor class?

Mr. SHIBLEY. Yes.

Senator CRAWFORD. The trustocracy, is it a debtor class?

Mr. SHIBLEY. Yes; they own the great industries of the country, and when they issued paper currency they stated as the reason, "We have a large quantity of undigested securities."

Senator CRAWFORD. But this trustocracy is a capitalistic class. Isn't it of that creditor class?

Mr. SHIBLEY. No; not the creditor class; they are a debtor class. They are owing money; they have issued bonds——

Senator REED (interposing). You have several times said that the trustocracy said, "We have a lost of undigested securities, and therefore we want more money." Now, when did they say that and who said it?

Mr. SHIBLEY. About the year 1900, when this bank-money inflation took place.

Senator REED. Is that a mere assumption of yours, or did some man who is a representative of those interests make that statement?

Mr. SHIBLEY. I can not recall the man who stated it, but I recall that it did take place, and you will find it incorporated in the literature of the year 1900.

Senator WEEKS. Don't you know that most of the so-called trusts have never issued any bonds?

Mr. SHIBLEY. They have issued preferred stock probably, and that is a better form of security for those who issue it.

Senator WEEKS. There is a vast difference between stocks and bonds.

Mr. SHIBLEY. Yes; but this debtor class secured the passage of the law for inflation.

Senator NELSON. It is that class of men that is in control now?

Mr. SHIBLEY. In control of the trusts; yes.

Senator NELSON. The debtor class?

Mr. SHIBLEY. That is my opinion.

I will further state that during those years, from 1867 to 1900, the people were political slaves, the power in control committed legalized robbery in every direction, one of the methods being to increase the purchasing power of money by destroying the two-metal standard of prices, putting in its place for Europe and for the United States the gold standard of falling prices and a fluctuating par of exchange with the silver-using countries. If you want all the facts, examine the report of the British Gold and Silver Commission, and you will find there the whole terrific trouble that took place in the world.

Senator BRISTOW. What years were those?

Mr. SHIBLEY. 1867 to 1900. From the time of that monetary conference in Paris in 1867 to 1900 we had that standard of falling prices with the creditor class in power.

Senator BRISTOW. Do you think there has been more trouble in the world since then than ever before?

Mr. SHIBLEY. That is pretty hard to say.

Senator CRAWFORD. But during that period this class of buccaneers went in with the creditors and got legislation for them; then, in 1900, they switched over and went into this conspiracy with the debtors; that is your claim?

Mr. SHIBLEY. Yes. "The king is dead; long live the king"!

Senator NELSON. How can we get rid of that king?

Mr. SHIBLEY. We have gotten rid of him to-day. The people are in power this very day, and have been since March 4, 1913——

Senator NELSON (interposing). That is some consolation.

Mr. SHIBLEY. And the legislation that has taken place demonstrates it, in my opinion. Gentlemen, I have worked for this 20 years. When I found that the Baltimore convention had provided that in 1916 we shall have a direct primary, with a preferential vote for President and Vice President of the United States, I said, "Hurrah! The fight has been won; the people are in power from this day hence."

Senator REED. But, really, that has not very much to do with this question of banking.

Mr. SHIBLEY. It all depends upon where the basis of political power is. If the creditor class were in control in this Congress we would have a creditor-class bill, but I do not believe the creditor class will get what they want. The fact is that up to this moment the committee has not had before it the facts concerning legal tender in Europe. They have not had many other facts that are of importance. I will give you more of that a little later.

During the years of the existence of the gold standard of falling prices, the ruling power worked through a monetary system which enabled it to control the price level, putting it up at times, in order to allay the people's discontent, then to be followed by terrible falling prices, a disorganized industry, and an increasing weight of debt, through the slight-of-hand shifting of the standard of value. The method whereby this shifting of the standard of value has taken place I have explained to you. The facts are of such a broad nature and are stated in the current records of the several years, so that there is no possible mistake as to their existence.

Beginning during the latter part of 1897 a rising price level set in in the gold-standard countries, principally due to the tremendous increase in the output of gold from the mines, and along with this change there came the remarkable development of private monopolies in industry in the United States, the trust era. In this trust era the ruling power was opposed to the creditor class, and the result was a wild inflation of paper money on top of too much gold money. In the year 1907, at a time when the people were getting control of several of the State governments and throughout the country were securing laws restricting the free-booters who were managing the railroads, and at this time, also, the administration in the Federal Government was pushing for reforms in the people's behalf, one section of the trustocracy, that headed by the Standard Oil group, repeated the tactics of earlier times by producing a panic for money, in the meantime having sold stocks and in other ways having prepared to reap profits in the stock markets and to ruin competitors and afterwards buy in their plants and close them out.

The Morgan group of interests were not in this conspiracy, and the success of the panic for money caused the Morgan group of interests to lose terrifically, in my judgment.

After the panic was over the head of the Morgan group set out to establish in this country a unified control of the money market and price level and thereby prevent a repetition of the terrible doings in 1907.

A short time after the panic Senator Aldrich introduced a bill to put an end to the power of the Standard Oil group to force panics. The day that the bill came up for discussion the head of the Morgan group came to the National Capitol and sat in the Senate gallery and listened to the statement by Senator Aldrich.

That bill provided first for an emergency currency for temporary use. Second, it established the National Monetary Commission, the aim being to prepare the way for the establishment of a unified control of the money market and price level for this country, the management to be in a national board of directors representing the banking interests. Subsequent events demonstrated that this was the plan.

Senator HITCHCOCK. But I understand you to say the Morgan faction in New York had nothing to do with the panic of 1907?

Mr. SHIBLEY. I believe not; I think they were terribly hurt.

Senator NELSON. It was that crowd that had a hand in it to start?

Mr. SHIBLEY. The Standard Oil crowd did the panic work; that is my opinion, because, as I have stated, the head of the Morgan group secured the Aldrich-Vreeland law.

Senator REED. It is interesting to have your opinion that the Standard Oil group did that. I am no friend of the Standard Oil group, but I would like to know what you base that on.

Mr. SHIBLEY. Why, the fact that the head of the Morgan group came down here and applauded the Aldrich bill.

Senator REED. That does not prove that the Standard Oil group produced the panic—that Mr. Morgan wanted this bill.

Mr. SHIBLEY. I think it does.

Senator REED. That does not prove it at all. What are the other facts?

Mr. SHIBLEY. The fact that we had in the industrial world at that time two contending industrial forces—the Morgan group and the Standard Oil group; and the Morgan group came down and got the Aldrich-Vreeland law.

Senator REED. But still you have not proved anything. Admit, now, that there were two great industrial forces contending against each other. Admit that the panic came. Admit that one of those forces appeared in Congress applauding the Aldrich bill. How does that prove or tend to prove that the one that was not in the Senate gallery that day produced the panic?

Mr. SHIBLEY. Well, I leave it to the gentlemen here——

Senator REED (interposing). I am interested, because if you know facts showing that any group of men actually deliberately designed and brought about that panic—whether it was the Morgan group, the Rockefeller group, the Kuhn-Loeb group, or any other group—it is an important fact that we ought to have, and it might be a very important fact to consider in relation to the whole credit system. But vague opinions would hardly do as a basis for drawing a bill.

Mr. SHIBLEY. Perhaps you have not caught the significance of the fact I stated, that they planned for a unified control, so that no longer could a panic be forced, so that the Morgan group put in operation the Aldrich-Vreeland law——

Senator REED (interposing). But it does not follow that it was in order that a panic should not be forced. It might have been in order that a panic could not come——

Mr. SHIBLEY (interposing). Very well——

Senator REED (interposing). I do not want to be misunderstood. I am not here trying to defend the Standard Oil Co. now, but when you made that assertion I thought perhaps you had some proof, and when I can get any proof against the Standard Oil Co. I am looking for it.

Mr. SHIBLEY. I would refer to a speech delivered by the Senator from Oklahoma, which appeared in the Congressional Record——

Senator REED (interposing). The Senator may have produced some evidence in his speech.

Senator NELSON. Yes; that would be good evidence.

The CHAIRMAN. Just here, for the convenience of the committee, I will insert a table showing the fluctuation of the 20 principal stocks during 1907. It will show the most violent fluctuations of the interest rate, the most remarkable and astonishing fluctuation of the prices of these stocks, beginning in January. I call attention to Amalgamated Copper, with a capital stock of \$153,287,900. That started on January 12 at 119½, and dropped to 86⅝ by June 8, going steadily down. I call attention to the Allis-Chalmers Co., with \$19,820,000 capital, that went from 43 on January 12 down to 11⅞ in May and 10⅞ in June.

Senator BRISTOW. Did not one of these two great industrial crowds control those respective concerns?

The CHAIRMAN. I will call attention to United States Steel, of \$508,495,200 capital stock. It went from 49⅛ in January down to 34½ in June——

Senator NELSON (interposing). That was common?

The CHAIRMAN. Yes; common stock. And it went down to 24⅝ in November. The fluctuations of stock show the constrictions of credits and the violent fluctuations of interest because of the control of credits in the hands of the gentlemen in control of the leading banks there—and I think it included both crowds; I think they were in a common plan to make as much money as they could out of the stock market, and I believe they were able to control the fluctuation of credit up and down, and in that way, by controlling credit, contracting and expanding credits by millions of dollars, month by month, which is shown by the record I submit and by the Pujo report. I will also put in the record the fluctuation of loans, individual deposits and reserves, as shown by the bank reports, showing how the panic was brought on from January down to October. At a later date I will discuss it more fully.

(The tables referred to are as follows:)

Reports of New York City banks from January, 1907, to January, 1908, showing loans, individual deposits, and reserves during that period.

Date of call by office of the comptroller.	Banks reporting.	Loans.	Deposits.	Reserves held.	Per cent of reserves.
Jan. 26, 1907	40	\$728,319,528	\$857,875,410	\$230,116,200	26.82
Mar. 22, 1907	37	688,703.472	803,590,176	211,379,340	26.30
May 20, 1907	39	752,566,083	866,332,979	233,329,867	26.93
Aug. 22, 1907	38	712,121,058	825,703,785	221,349,657	26.81
Dec. 3, 1907	40	775,181,207	824,394,509	180,448,128	21.89

Fluctuation of principal stocks during 1907.

Name.	Capital.	Value of stock.												Range of prices.
		Jan. 12.	Feb. 4.	Mar. 4.	Apr. 6.	May.	June 8.	July.	Aug. 10.	Sept. 7.	Oct. 5.	Nov. 9.	Dec.	
1. Allis-Chalmers Co.	$19,820,000	43	14½	13½	12⅞	11⅞	10⅞	11¼	10	6⅝	6⅞	5½	6⅝	27 to 4
2. Amalgamated Copper Co.	153,287,900	119½	111	110	97½	96	86⅝	92⅞	74⅝	71½	59⅛	48	48⅝	130 to 33
3. American Beet Sugar Co.	15,000,000	21¾	18½	18¼	16¾	15½	13	16	11	12	11	8¼	10	36 to 7
4. American Ice Securities Co.	19,029,400	85	83	81	80	72½	....	69⅞	54½	52	....	11¼	16⅞	94 to 8
5. American Telephone & Telegraph Co.	131,551,400	130	128⅛	....	122	123	....	....	....	....	....	90	103	186 to 88
6. Baltimore & Ohio	152,165,500	119½	115	109⅜	101¾	99⅜	95	98	93	91	89¼	80	82⅜	125 to 55
7. Erie	112,379,900	42⅝	34½	33⅞	25¼	24⅝	22¼	25¼	22	21⅜	18⅝	17⅝	16¾	52 to 10
8. Great Northern	149,577,300	183½	166⅞	159½	138	136⅞	127¾	135⅝	121½	128½	128	113½	119⅜	348 to 107
9. New York Central	178,292,100	132⅞	125⅝	124⅜	120¼	116⅜	112¼	114¼	105¼	105⅝	102¼	98	98⅜	174 to 89
10. Southern Railway	119,900,000	31¾	26⅜	25⅝	22⅜	21½	19⅝	20⅜	17⅜	16½	12⅛	12⅝	40	42 to 10
11. Tennessee Copper	5,000,000	....	....	51¾	....	41	36⅞	39¼	32½	36	30	22	27	....
12. Tennessee Coal & Iron	22,553,600	158	....	147	144	145	139	141½	....	....	....	....	....	166 to 25
13. Texas Pacific	38,760,000	35⅝	32	32⅝	29¼	29	27⅝	31½	26	28	25⅝	18¼	20¼	54 to 13
14. Third Avenue	16,000,000	122	117½	116½	110	110	105	....	85	54	40	20	22	141 to 15
15. Union Pacific	195,479,100	180	171¼	170⅞	141⅝	148¼	136⅞	142⅞	127	131⅝	127	111½	116⅝	195 to 44
16. United States Steel Corporation	508,495,200	49⅜	43⅞	43⅞	37⅝	37½	34½	38⅞	31¾	32¼	26¾	24⅝	27¼	55 to 8
17. Wabash	38,000,000	17⅞	16⅜	14⅞	14⅜	14	12⅝	13¾	12	12¼	10	9	10½	36 to 6
18. Westinghouse E. & M.	29,996,350	149½	150	150	146½	143⅞	142½	142	141	133	122	47	70	233 to 32
Volume of sales for the week, in number of shares	....	4,932,000	6,295,615	5,802,476	6,176,753	3,786,059	3,169,313	2,301,758	4,436,982	2,588,258	2,481,097	1,817,591	4,613,552	....

Senator NELSON. Professor, I think you are safer before this committee to assume that both crowds are guilty.

Senator REED. The statement made by Senator Owen is, of course, very interesting as a matter of history, showing those fluctuations. But, of course, that does not show that somebody deliberately conspired to bring on the panic. Much less does it show that Mr. Morgan was posing as the good angel of the people and trying to prevent it, and that Rockefeller was the Mephistopheles who overcame it. I was interested in knowing how you proved this case, and still I am in the dark.

Senator NELSON. You forget, Senator Reed, how Mr. Morgan saved the country and stopped the panic by absorbing the Tennessee Coal & Iron Co. [Laughter.]

Senator REED. I have not overlooked the fact that he also got some Government money.

Senator POMERENE. They have proved that by Col. Theodore Roosevelt.

Mr. SHIBLEY. I was just going to remark that you should read the President's message of February, 1908, in regard to that panic.

Senator WEEKS. I should like to return to a statement made by the witness about the Morgan interests coming down here and dictating what he called the Aldrich-Vreeland legislation.

Mr. SHIBLEY. It was stated in the daily papers that the head of the Morgan group came here when that was taking place and smiled approvingly——

Senator WEEKS (interposing). I think it is true, though I did not see it, that Mr. Morgan was in the gallery while that bill was under discussion. But what do you mean by "dictating" that legislation?

Mr. SHIBLEY. Oh, it is generally understood that the men who hold the purse rule the party——

Senator WEEKS (interposing). Just let me say to you that I helped draw that bill and I was on the conference committee. I never saw Mr. Morgan and never saw but one of his partners, which was at another time, and neither Mr. Morgan nor any other interest had any more to do with drawing that bill than you; and, moreover, the limitation for six years and the limitation for the commission were put in at the conference at the suggestion of Senator Burton and myself.

Mr. SHIBLEY. I am outlining things that took place when we did not have a unified control in this country. Now, we are putting in a unified control, and it will be absolutely impossible for other interests to do the things they have been doing heretofore.

Senator BRISTOW. You say the volume of money was put up and down in 1907?

Mr. SHIBLEY. I mean before that; I am speaking of the period from 1867 to the present time.

Senator HITCHCOCK. You think this unified control might never fall into the hands of the great interests?

Mr. SHIBLEY. If it does they will have to act somewhat fairly, because a responsibility will be placed there——

Senator HITCHCOCK (interposing). You remember how that same great Morgan interest you have just referred to came down here and persuaded the President of the United States to permit it to absorb the Tennessee Coal & Iron Co., in violation of law, for the public

good? That was a case in which they had access to the President of the United States and the Government. Might not such a condition happen again?

Mr. SHIRLEY. I desire to say that under the unified control the country will be much better off than leaving each separate interest to work as it may choose.

Connected with the plan for the emergency currency was a subordinate plan of bolstering up the stocks and bonds of the Steel Trust and other trusts. This was exposed by Senators La Follette and Gore, who conducted the noted filibuster against the passage of the bill. But the bill became law and the Aldrich program went forward.

However, the existence of an aroused public sentiment against the trusts, combined with the existence of a considerable amount of improvements in the mechanism for nominating and electing public officials, prevented the rapid completion of the plan for a central bank of issue to be controlled by the organized bankers. And in 1910, the year after the trustocracy had revised the tariff upward, the people secured control of the National House of Representatives. This effectually blocked the plan for the central bank to be controlled by the bankers. Then in 1912 the people captured the White House and the Senate.

But the bankers, while they realize the changed situation, did not give up in despair, as subsequent events plainly show. The following facts are of record.

The country is indebted to Charles A. Lindbergh, a progressive Republican Representative from Minnesota, for the collection and publication of data outlining much of what has taken place in connection with the bankers' attempt in recent years to secure a continuance of special privileges in connection with the monetary system. Last May Congressman Lindbergh published a book entitled "Banking and Currency and the Money Trust." Mr. Lindbergh is one of the authors of the Money Trust investigation.

Mr. Lindbergh's book starts out by publishing the famous Hazard circular of Civil War times, in which plans were laid for the continuation of the bankers' control of affairs in the United States through the establishment of banks of issue to be known as national banks. Also Mr. Lindbergh published three other famous circular letters of the earlier days to demonstrate the established habits of the bankers to cooperate with each other for the securing of special privileges to themselves at the people's expense. He then describes an organization of recent years, the Citizens' League, organized by agents of Wall Street, with a branch in each of 44 States, and which has doubtless expended $500,000. The plan has been to get men and women to join throughout the country, the annual dues being $1 a year, this to entitle them to the league's literature; and these members have been relied upon to write to Senators and Congressmen urging the program set forth by this miscalled Citizens' League.

The appeals for funds in connection with this so-called Citizens' League came from the Wall Street banks, and the letters are published in full by Congressman Lindbergh.

One feature of the Citizens' League's work was to aggressively fight such of the Senators and Congressmen as were so manly as to represent the people by fighting the bankers' plan for the central

bank and bankers' control. Three public meetings were held in Mr. Lindbergh's district, the public speaker being an ex-Member of Congress, who was still drawing $7,500 per year of the people's money as a member of the National Monetary Commission.

It is said that the origin of the Citizens' League was in Chicago soon after the National Monetary Commission was created. A further fact is that in June, 1911, Prof. J. Laurence Laughlin, of the Chicago University, secured a year's leave of absence and was placed in charge of certain work of the Citizens' League. These facts are stated in the bulletin of the league entitled "Banking Reform," for April, 1913. The further statement is made that for nearly two years Prof. Laughlin was employed by the Citizens' League, and, says the league's publication:

> It is largely due to his efforts and his persistence that the campaign enters the final stage with flattering prospects of a successful outcome.

This was said last April. It is in order now to present to you gentlemen of this Senate Committee on Banking and Currency just what Prof. Laughlin did that resulted in the bankers' campaign entering the final stage with flattering prospects of a successful outcome.

Under Prof. Laughlin's leadership during the first six months of 1912 the league, according to its own figures, printed and distributed "nearly 1,000,000 pamphlets," together with hundreds of newspaper articles and a regularly issued bulletin. The league's textbook entitled "Banking Reform" was distributed free to 1,500 newspapers for review; 12,000 copies of the book were distributed; and the circulation of the league's bulletin mounted up to 30,000 regularly.

These figures are from the official report of the league, and are published at page 125 of Congressman Lindbergh's book.

On January 8, this year, Prof. Laughlin appeared before the subcommittee of the Democratic House Committee on Banking and Currency, and describes himself as—

> at the present time chairman of the Citizens' League for the Promotion of a Sound Banking System. (Page 107 of Hearings.)

He outlined a proposal for a currency and banking system that is almost exactly what became the administration bill. Of course, Prof. Laughlin knew that the progressive democracy would insist on Government control of the national board, at least, and so he admitted in his statement that the national board for the system he had in mind might be a Treasury board, as he expressed it. (Page 129–133 of Hearings.)

But the regional reserve banks, as he termed them, were to be controlled by the bankers. In answer to a question, he said that he was—

> trying to find a practical way out as against the Government issuing paper without any connection whatever with business. (Page 137.)

The one who afterwards became the chairman of the Democratic Banking and Currency Committee argued with Prof. Laughlin urging the guaranty of bank deposits and placed in the record a statement by ex-Secretary Lyman J. Gage in its behalf (p. 147), but Prof. Laughlin opposed the idea and the professor's ideas prevailed in the bill which the chairman afterwards brought out.

The fact that the bankers' plan as outlined by their chief expert has actually passed the Democratic House is an astounding piece of information.

The explanation is that the "sound money" trick was of such a character that its fundamental fallacy has not been exposed as yet except in the statements by me published by the chairman of this Senate Committee on Banking and Currency, and published, also, in Senate Document No. 135, this session.

The underlying fallacy in the House bill for Federal reserve banks is that a capital stock is called for. This fallacy can be seen by an analysis of the work to be done by the reserve banks:

The proposed reserve banks are to be banks of issue; that is, they are to issue paper money to be used in combination with the gold standard; also, a gold reserve is to be built up, and, third, a clearing-house system for the entire Nation is to be conducted, the member banks to have on deposit enough money or credit, at least, to settle the daily balances.

In connection with this general system a central control of the rate of interest for money is provided for through a national board which shall exercise a veto power over the rate of interest suggested by the boards of directors of the 12 banks of issue.

These 12 banks of issue are to deal only with the banks of the country and in no wise receive deposits from individuals or make loans to them. Thus these 12 banks of issue are to be bureaus of issue and redemption for the paper money of the country, and also they are to accumulate an immense gold reserve through the exchange of paper money for gold, the same as is done in England, France, Germany, and the other up-to-date countries. A third great function of the 12 banks of issue will be to control the interest rate and thereby control the price level and the volume of gold in this country.

These functions for the 12 banks of issue are all-important. And it is extremely wise that they are not to loan to private individuals. In this country we are free to establish an ideal system, and as we are relying upon regulated competition in every part of the national life except where natural monopolies exist and in the post office and public schools, we should treat fairly the citizens who are supplying capital and banking accommodations through the 25,000 banks.

Senator HITCHCOCK. Mr. Shibley, it is a very serious question whether or not the bill does not permit these 12 regional banks to do business with individuals directly. I think it is section 15 which gives them the right to go out and buy paper for the so-called purpose of establishing the rate of interest.

Mr. SHIBLEY. But they are not to receive loans from individuals.

Senator HITCHCOCK. No; but they are allowed to buy paper in competition with other banks.

Mr. SHIBLEY. That is considered a necessary measure in order to control the rate of interest.

Now, I was saying that citizens who have invested their money in the 25,000 banks should be treated fairly. This means that the Government ought not to establish a banking system that is publicly owned or that is provided with special privileges which the 25,000 banks do not possess. For that reason the 12 banks of issue, to in-

clude hundreds of branches throughout the Nation, ought not to enter into competition with the existing banks, but should be an aid to those 25,000 banks. At the same time the laws should be such that competition in the loaning of funds shall be restored.

Senator NELSON. What about the stock for these regional banks?

Mr. SHIBLEY. I am coming to that. The existing banking and money monopoly must be dissolved. The way to dissolve the existing banking and money monopoly is to establish the 12 banks of issue and provide that they shall be controlled by boards of directors representing the people rather than the bankers.

Senator REED. What do you mean by "the existing banking and money monopoly"? For instance, I live in Kansas City, a small western city, and there there are a number of national banks, a large number of State banks, and several trust companies. If I do not like to do business with one of them, I can go to another. Everybody else has the same privilege. Some of them pay one rate of interest for deposits; some pay another; some pay none. Some of them loan on one class of securities, and some on another.

I have never known a time in my life when, if a man went to one of those banks and had a reasonably good security, he could not get almost any amount of money, except during the short periods of trouble in 1907, and prior to that—1893—there was a stringency. That is the situation there. I guess it is the same in other towns——

Mr. SHIBLEY. In reply I should like to be authorized to place in the record an excerpt from the report of the Pujo committee as to the existence of the present Banking and Money Trust, which states just how it operates.

Senator CRAWFORD. But that involves the whole Pujo investigation, which was for the very purpose of uncovering the Money Trust.

Mr. SHIBLEY. I should simply like to place a page of the report in the record, if I may.

The CHAIRMAN. If there is no objection, that may be done.

Mr. SHIBLEY. This excerpt states the facts which prove there is a banking and money trust:

> Of this present-day concentration of control of credit and money, Mr. George F. Baker, of New York City, second only to Mr. Morgan in the banking world, admitted on the witness stand before the Pujo investigating committee that—
>
> "I think it has gone about far enough." (Rept. No. 1593, p. 106, 1913.)
>
> Mr. George M. Reynolds, of the Continental and Commercial Bank of Chicago, said to the Pujo committee:
>
> "I am inclined to think that concentration, having gone to the extent that it has, does constitute a menace." (Same citation, p. 105.)

Concentration of *control* of money and credit has gone so far that the large banking houses have divided up the field for the flotation of credit operations, so that—

> A banking house that has organized a great industrial or railway combination or that has offered its securities to the public is represented on the board of directors and acts as its fiscal agent, *thereby assuming a certain guardianship over that corporation.* In the ratio in which that corporation succeeds or fails the prestige of the banking house and its capacity for absorbing and distributing future issues of securities is affected. If competition is threatened it is manifestly the duty of the bankers from their point of view of the protection of the stockholders, as distinguished from the standpoint of the public, *to prevent it if possible.* If they control the sources of credit they *can* furnish such protection. It is this element in the situation that unless checked is likely to do more to prevent the restoration of competition than all other conditions com-

bined. This power standing between the trusts and the economic forces of competition is the factor most to be dreaded and guarded against by the advocates of revived competition.

This is the carefully considered summarization of the facts by the Pujo committee, page 160 of its report, and the committee continues:

Mr. Morgan was unable to name an instance in the past 10 years in which there had been any railroad building in competition with any of the existing systems. He attributed it to the restrictions of the Interstate Commerce Commission. The fact is, however, as we all know, that railroad construction is constantly being prosecuted—necessarily so with our rapidly growing population—but that instead of being done independently as formerly *it is now done by the great systems.*

It is impossible that there should be competition with all the facilities for raising money or selling large issues of bonds in the hands of these few bankers and their partners and allies, who together dominate the financial policies of most of the existing systems. There never will be, until this combination or community of interest can be dissolved by either closing to them the vaults of the banks, life insurance companies, and other trustees of other people's money or by opening them to meritorious competing enterprises.

Mr. Baker, when upon the witness stand, was unable to name a single issue of as much as $10,000,000 of any security, either in the railroad or industrial world, that had been made within 10 years without the participation or cooperation of one of the members of this small group. He subsequently wrote naming only the case of a single issue of $13,500,000. It was proved as to this instance by the notice issued to stockholders that Morgan & Co. were in fact largely interested and received a part of the profits from the issue. Yet it appears that within *six* years the *joint* account transactions of that group in *public issues alone* (not including any issues made by them alone or provately), amounted to over *three billion dollars*, of which a $10,000,000 issue would have been less than one-third of 1 per cent.

Issues of securities of local or small enterprises requiring moderate sums of money are frequently financed without the cooperation of these gentlemen; but from what we have learned of existing conditions in finance and of the vast ramifications of this group throughout the country and in foreign countries we are satisfied that their influence is sufficiently potent to prevent the financing of any enterprise in any part of the country requiring $10,000,000 or over, of which for reasons satisfactory to themselves they do not approve. Therein lies the peril of this money power to our progress, far greater than the combined danger of all existing combinations. The latter may at last fall of their own weight, especially if deprived of the protection and support against competition referred to, or they may be disintegrated as unlawful.

The men who established our great industries have added to the prosperity of the country during the period of the upbuilding of these industries; but they none the less violated the law when they reversed the processes under which the country had grown and prospered by combining to throttle the competition upon which they had thrived. Whilst they were struggling against one another for supremacy they were a valuable asset to the country; since they have pursued the opposite policy they have become a menace.

The gentlemen constituting this inner circle have, however, violated no law in what they have done, so far as we are able to gather; but that is rather because of the loose, intangible character of this recently developed community of interest and because the law has not yet properly safeguarded the community against this form of control.

The acts of this inner group, as here described, have nevertheless been more destructive of competition than anything accomplished by the trusts, for they strike at the very vitals of potential competition in every industry that is under their protection, a condition which, if permitted to continue, will render impossible all attempts to restore normal competitive conditions in the industrial world.

It accordingly behooves us to see to it that the bankers who require and are bidding for the money held by our banks, trust companies, and life insurance companies to use in their ventures are not permitted to control and utilize these funds as though they were their own.

If the arteries of credit, now clogged well nigh to choking by the obstructions created through the control of these groups, are opened so that they may be permitted freely to play their important part in the financial system, compe-

tition in large enterprises will become possible and business can be conducted on its merits instead of being subject to the tribute and the good will of this handful of self-constituted trustees of the national prosperity. (Original not italicized.)

Senator REED. I thought perhaps you had a reason. You have evidently given this matter great thought, and I am curious to know—as you use that as a basis of your argument—whether you think that there is a banking trust that reaches the ordinary individual in transacting business.

Mr. SHIBLEY. This Pujo Money Trust investigation shows evidence, which is uncontradicted, that a money trust does exist in New York City in connection with the great banks, and it tells just how it operates to finance different industrial interests and stands guardian over them.

Senator REED. That may be, but you do not claim that it extends out to the ordinary bank, do you?

Mr. SHIBLEY. I do not know how far it extends. I know that various clearing houses have, in violation of the law, I believe, become trusts. They provide that members must all charge 10 cents for the collection of out-of-town checks. It probably takes place in New York City as well as in other cities. It is a money trust to that extent.

Senator REED. Well, that would not be a very serious trust, if that is as far as it goes.

Senator CRAWFORD. I am curious to hear how these regional banks are going to do business without a capital stock.

Senator HITCHCOCK. Prof. Shibley, before I forget it, I want to correct a misstatement I think you made when you said that the chancellor of the German Empire controlled the rate of interest. This publication of the National Monetary Commission, consisting of interviews with European bankers, shows very clearly how the rate of interest is controlled. I will read this statement into the record from page 337:

> The management is so constituted that the Government has actual and final control through the Curatorium. The business of the bank is transacted by the second body, the Direktorium. In the fixing of the bank rate it is their custom to call a special meeting, if need be, of the central Ausschuss, who always confer in regard to the advisability of a change in the bank rate. The final power, however, lies with the directors, who usually follow the advice of the central Ausschuss, but who have at times disregarded it.

Now, the Direktorium, on page 336, is described as appointed by the Emperor for life. It consists of nine members, seven of whom are directors and two of whom are the president and vice president, respectively. The other members of the Direktorium are recommended by the Bundesrath to the Emperor, who makes the appointment. In the case of the directors the advice of the central Ausschuss is heard.

So it is the Direktorium, advised by the central Ausschuss, that fixes the rate of interest.

Mr. SHIBLEY. Now, I would like to inquire if there is any veto power that could be exercised by the chancellor?

The CHAIRMAN. The language read by Senator Hitchcock states that the actual and final control is in the Curatorium, of which the chancellor is at the head.

Senator HITCHCOCK. That is the final power; but there is no evidence that the Curatorium has interfered with the interest rate. I have never heard of the Curatorium interfering with the interest rate.

The CHAIRMAN. Reading from the same record, on page 336, at the top of the page, this occurs:

> In the chancellor lies supreme power, although he has never exercised it but once in the history of the bank. On that occasion he demanded that they should not receive Russian securities as collateral for loans. His order has since been revoked.

Senator HITCHCOCK. He never interfered with the interest rate.

Mr. SHIBLEY. He has that power.

Senator HITCHCOCK. I doubt it.

Mr. SHIBLEY. It says he has the final, the supreme power, and that is the German system.

Senator NELSON. I am anxious to see how this bank is going to continue without capital stock.

Mr. SHIBLEY. Let me continue.

The issue is clear cut: Shall the boards of directors of the 12 banks of issue represent the people or represent the bankers?

The administration bill provides that the bankers shall elect six of the nine directors for each of the 12 banks of issue.

The administration was morally bound to consent to this because it was induced to accept the provisions that the bankers should contribute some $650,000,000 to be used by the 12 banks of issue.

Now, the fallacy which Prof. Laughlin and the other "sound money" men perpetrated on the administration was to secure an assent to the proposal to pile up a large volume of actual banking capital in the banks of issue.

The fact is that no such banking system exists anywhere in the world. In Germany a step in that direction was proposed in 1908 by the bankers' experts, but the Government refused to accept the plan. Of course this rejection by the German Government of the plan proposed by the chairman of the House committee was not known to the administration in this country when it accepted this rejected German plan. I will ask this committee if it has been told that the German Government had rejected the plan for the deposit of actual bank reserves with the bank of issue?

Does this record show that the German Government rejected this plan that is being proposed?

The CHAIRMAN. I think not.

Mr. SHIBLEY. That is the point I am relying on right along. The Citizens' League, which was created as a mouthpiece of the bankers, has been carrying this plan forward, and on January 8 they outlined their plan publicly and afterwards got it into the administration bill.

Senator REED. I want to interrupt you just a moment. Do I understand you to say now that the Money Trust got up the Citizens' League?

Mr. SHIBLEY. The bankers.

Senator REED. Would you call them the Money Trust?

Mr. SHIBLEY. The big bankers.

Senator REED. What bankers?

Mr. SHIBLEY. Mr. Lindberg states in his book that the president of the Chase National Bank wrote to other bankers and asked for contributions.

Senator REED. Does the Chase National Bank belong to the Morgan group or the Rockefeller group?

Mr. SHIBLEY. I can not say. Its plan is the "sound money" plan; that is to place the bankers in control of the people's monetary system.

Senator REED. You think the bankers got up what I will call a conspiracy to control and get a bill through that suited them?

Mr. SHIBLEY. Certainly.

Senator REED. And they got up the Citizens' League as a means of propagating their ideas without apparently doing it themselves in the open?

Mr. SHIBLEY. Exactly.

Senator REED. And they got Prof. Laughlin to be the mouthpiece of that league?

Mr. SHIBLEY. Their bulletin states that such is the fact.

Senator REED. And Prof. Laughlin, then, practically originated this bill?

Mr. SHIBLEY. Yes. I call your attention to the record as to what he proposed on January 8, portions of which I have quoted.

Senator REED. That is your judgment of it?

Mr. SHIBLEY. Yes; I have collected the points he asserted and claimed at that time, and I have placed them in this record verbatim.

Senator REED. That is a startling bit of information.

Mr. SHIBLEY. I call your attention to the fact that the men who accepted this bill did not know that the German Government had rejected a similar plan. They did not know that the German Government had put in legal-tender currency when they accepted this bill for a crippled legal tender, and the main point is that they were induced to accept a plan to have a large amount of bank capital and reserves in the 12 banks of issue. Now I will go on with my argument.

Senator HITCHCOCK. Will you state whether the notes of the notes of the Reichsbank can be used as reserve in other banks?

Mr. SHIBLEY. Certainly.

Senator HITCHCOCK. Of course they are not reserves in the Reichsbank?

Mr. SHIBLEY. Oh, no. Now, I will continue with my argument.

Furthermore, there doubtless was kept from the administration, the same as there had been kept from this Senate committee, the fact that the German Government temporarily lost the gold standard in 1907 because the paper currency was not legal tender. This fact has been kept from this Senate committee, just as it was kept from the administration, owing to the power and influence of the "conspiracy of silence" which the bankers and their allies have been able to enforce.

It was perfectly natural, therefore, that the plan accepted by the administration and the House of Representatives should include the basic fallacy that the 12 banks of issue should receive from the banks \$100,000,000 to be contributed as capital stock, and some \$500,000,000 of deposits by the banks, whereas the depositing by the

banks of anything more than enough to settle the daily balances would be worse than useless, because—

First, apart from the operation of the clearing house system, the proper working of the 12 banks of issue will not require the deposit of a single dollar by the private banks of the country. In France, for example, and in each of the other countries where there is an elastic volume of paper money, the bank of issue puts it out and retires it, thereby meeting the enlarged demand for money from various sources. The private banks are not asked to place part of their deposits with the bank of issue, as such a thing would be entirely out of place.

Now why did the Aldrich bill propose that the central bank of issue which it suggested should receive from the banks some 600 or more million of actual banking capital?

The answer is that the Aldrich bill planned that the bankers should control the central bank of issue, whereas in Europe the bankers are not permitted to control a bank of issue.

Senator REED. Is there not another answer? They thought it was necessary to have some money to have a bank. I am not defending the Aldrich bill; I have always denounced it.

Senator CRAWFORD. In other words, can you have a bank for rediscounting features without having capital.

Mr. SHIBLEY. I am coming to all of those points.

The answer is that the Aldrich bill planned that the bankers should control the central bank of issue, whereas in Europe the bankers are not permitted to control a bank of issue, nor would the people of the United States permit it unless they first were deceived and thereby induced to grant the authority. Therefore, the framers of the Aldrich bill set out to deceive the people, and the tactics adopted were as follows:

Trick No. 1. It was proposed to gather together several hundred million dollars of actual banking capital contributed by themselves—their own property—believing that the people could not properly object to the bankers' control of their own capital. The name proposed for the institution was the National Reserve Association. Incidentally, the plan included snug special privileges, namely, the sole power to control the purchasing power of money through the control of the rediscount rate and the sole power to issue the paper money of the country. These were tucked away toward the end of the bill, very obscure, except to the most unflagging attention. (Secs. 30, 41, 48, 50–56.)

The special privileges did not appear until those last sections were reached.

Trick No. 2. While no such collection of actual banking capital in the form of a central reserve association existed anywhere in the world, because nowhere else had the bankers worked such a trick upon the people, the trustocracy in these United States falsely claimed that the European systems of banking were similar. This was necessary to the carrying out of their plan. This was trick No. 2.

Senator CRAWFORD. Professor, seriously, I want to place in the record——

Mr. SHIBLEY (interposing). Please let me finish; I am right in the middle of a paragraph. Neither in France, England, or any other country are actual bank deposits placed in the bank of issue

for the purpose of supplying the needed money when an emergency arises. Therefore the backers of the Aldrich bill falsely claimed that the European systems of banking were similar to their proposed National Reserve Association.

The Aldrich plan was defeated in the Democratic House that was elected in 1910 as the result of the people's uprising against trustocracy. That Democratic House refused to accept the Aldrich bill. Then came the people's success in 1912. But in the House the new chairman of the Committee on Banking and Currency proposed a bill that contained the fundamental fallacy that was in the Aldrich bill, namely, that the bank or banks of issue that were in nowise to loan money to individual citizens, and so would not run any risk of losing money, should possess a capital stock to be contributed by the banks, and also that the banks should deposit with the banks of issue a large volume of bank reserves. That fundamental fallacy was contained in the Glass bill, also a proposal that the bankers should control the national board as well as the regional boards.

That was the proposal presented to the chairman of the Senate Committee on Banking and Currency, who had just been appointed, and therefore had not had time to study the European systems of banking and currency. He at once rejected the idea of a bankers' control of the national board and succeeded in winning his point, just as Prof. Laughlin doubtless expected, for the professor, in his statement at the hearing of the House committee on January 8, 1913, conceded that there should be a "Treasury board," as he termed it. Furthermore, the so-called experts who were volunteering advice were mostly of the "sound-money" type, and so did not expose the basic fallacy in the plan, as it was the basis for placing the bankers in control of the boards of directors of the 12 banks of issue.

And I have just shown in my statement before this committee, up to to-day this committee has not had placed before it the all-important facts I have given to you about the European system.

That is the real explanation of the success of the "sound money" advocates. There was no public hearing, that being left for the House committee.

Senator NELSON. You mean the Senate committee?

Mr. SHIBLEY. There was no public hearing, that being left for the House and Senate committees; but later the House committee refused to conduct a public hearing. I, for one, wrote and asked that I be permitted to present facts favorable to important features in the bill and in opposition to other features, but neither I nor any other citizen was permitted to place any of our statements before the House Banking and Currency Committee. I desire to place in the record my letter to the chairman of the House committee.

(The letter referred to is as follows:)

I have just finished the preparation of a statement outlining the history of the ways whereby the purchasing power of money has been measured, and is to-day being measured by the Governments of the United States, England, and Canada, and the mechanism whereby the price level in a country is controlled, and show that in this and several other respects the Glass-Owen bill is ideal. And I point out some of the advantages to society that will flow from a stable price level. The title of my paper is "Stable money and the new freedom provided for in the Democratic bill." At the close, in support of the doctrine of the "new freedom," I ask three questions and answer them.

I should like to present this to the House Banking and Currency Committee for immediate publication, and will gladly answer questions before the committee at any time.

I will add that it was I who prepared in May the memorial to Congress on "The currency and the money questions" that was published by the Senate Banking and Currency Committee. My present statement follows as a logical sequence, explaining important details in the present bill and querying other portions.

Senator CRAWFORD. But, Professor, what I want to say is, are you aware of the astounding character of the charge you are making? That is to the effect that Secretary McAdoo, Secretary Bryan, and President Wilson have been tricked, so completely as I understand your language to import?

Mr. SHIBLEY. I have made my statement, and I think it is very clear.

Through the refusal of the House committee to hold public hearings after the bill for banking and currency reform had been drafted there was no public record of the facts which I am now presenting to this Senate committee. Had this Senate committee chosen to refuse to conduct public hearings there would have been but little opportunity to place before the public the facts which I am herewith presenting. This fairness on the part of the Senate committee is cause for rejoicing; also the fact that the chairman of this committee has freely published in the name of the committee the statements both for and against the various features in the bill.

He has been doing so from the start.

This explains why it is that not until October has there appeared in an official record in connection with the banking and currency bill the facts of history which demonstrate that a legal-tender paper currency is absolutely essential in connection with gold standard; and that capital stock and large reserves for the 12 banks of issue would be worse than useless. The proof I present is indisputable, and I also assert that if the present plan for capital stock contributed by the bankers and bankers' control for the 12 banks of issue is put through, and thereby become law, that it will largely tend to defeat the progressive Democracy in next year's election.

Senator NELSON. How can a bank get along without capital?

Mr. SHIBLEY. I am coming to that. I now present proof of the two points named.

First, as to my proof that the 12 banks of issue do not require capital stock.

The things which the 12 banks of issue are to do can be fully performed and effectually performed without any capital stock. An analysis of the work to be accomplished demonstrates that this is so:

First. A mammoth gold reserve can quickly be built up through the issuing of legal-tender paper currency in exchange for gold bars and gold coin, the same process that is used in England, France, Germany, and the other countries.

Senator HITCHCOCK. How is that? Please repeat that.

Mr. SHIBLEY. First, a mammoth gold reserve can quickly be built up through the issuing of legal-tender paper currency in exchange for gold bars and gold coin, the same process that is used in England, France, Germany, and the other countries.

Senator NELSON. Just these banks are to issue legal-tender notes to get gold?

Senator HITCHCOCK. No; that is not the process. They are going to get the gold and then issue the notes.

Senator NELSON. No; here they issue the notes and then get the gold on the notes.

Mr. SHIBLEY. Exactly; the same as is done in France, England, Germany, and other countries.

Senator REED. Let me understand that. What was Senator Nelson's suggestion?

Senator NELSON. I said his theory is that these regional banks, all they have to do is to issue these legal-tender notes and upon them they get the gold reserve. That is, they just hand out these notes and the gold comes in for the reserve. Is that correct?

Mr. SHIBLEY. That is correct.

Senator HITCHCOCK. Where do you get it from?

Mr. SHIBLEY. Get it from the banks and the people in general. There is stacked up in the United States Treasury, against gold certificates, more than $1,100,000,000. The only thing required is that these 12 banks of issue shall get those certificates and issue legal tender in place of them and then they will have the gold.

Senator REED. That is to say, now, I am president of one of these regional banks. I want $10,000,000 of gold. I get $10,000,000 paper money from the Federal reserve board. Now, where do I take that, and what am I going to do with it to get that gold?

Mr. SHIBLEY. As the gold certificates come in to the bank it will sort them out and issue the legal-tender paper currency in its place.

Senator REED. Where is the gold coming from? Of course, if it gets in there I am going to grab it.

Mr. SHIBLEY. It will be paid in in the regular course of trade.

Senator NELSON. Who will pay it in and for what purpose?

Mr. SHIBLEY. The national banks and individuals will pay in gold certificates. If I could draft the law I would provide that the national banks should pay into the reserve banks their gold certificates. That is in connection with the provision reducing the volume of reserves to be held by the national banks. I would provide that the reserves shall be the legal-tender paper currency, rather than the present gold certificates. The change would be to use another form of paper currency. Both forms of paper currency are legal tender, and both are redeemable in gold on presentation and the reason for the change is to build up a central gold reserve in charge of the Federal reserve board in place of having the gold in the 7,000 national banks and various other places.

Senator WEEKS. Mr. Chairman, may I suggest the hour of 5 o'clock has arrived, the hour at which we have agreed to close our hearings?

Senator NELSON. Oh, I think he can finish by 6, can't you?

Senator BRISTOW. Suppose we continue until half-past 5, anyway, which was the hour we agreed to adjourn.

Senator NELSON. I want you to come prepared in the morning to give us a clear idea of how this bank is going to be run without any capital—these regional banks.

Mr. SHIBLEY. I am right in the midst of that.

The CHAIRMAN. Proceed.

Senator HITCHCOCK. We have the wireless telegraph and the horseless carriages, and now we are going to have the capitalless bank.

Senator REED. I do not want to take the time of the committee or interrupt you, but we are right on this point, and, of course, if you are correct, then many things might follow. Your proposition is that we will establish a regional reserve bank without any money being paid in in the way of capital stock?

Mr. SHIBLEY. Yes; I am just in the midst of giving my reasons. I said, first, that a mammoth gold reserve would be built up.

Senator REED. That is what I want to know—how it will be built up.

Mr. SHIBLEY. I say, in the same way that the central gold reserves in Europe are built up. The gold will be impounded in the 12 banks of issue, and in exchange would be issued legal-tender paper money instead of gold certificates.

The CHAIRMAN. They have to put the reserves in these banks. The banks keep the reserves in the reserve banks, according to your suggestion.

Mr. SHIBLEY. Oh, yes.

The CHAIRMAN. How are you going to build up gold reserve in the reserve banks from the member banks? That is what Senator Reed wanted to know.

Senator REED. Yes; and I do not understand it yet. The professor states he would issue paper money and in that way would get the gold. Now, manifestly, merely issuing it will not get it, and I want to know how he gets it. That is a very different thing—issuing paper money and getting gold for it—from the banks putting in their reserves, and when they do pay in their reserves, you require them to put the gold in for reserves. I grant you, freely, if the bank was required to put $1,000,000 of reserve in, and then we said it must put gold in, and it was able to do it, that would get the gold in. But the proposition you asserted was that by issuing the paper money you would get the gold for it. How?

Mr. SHIBLEY. In the same way that the Government of the United States accumulated its $1,100,000,000 of gold. It issued gold certificates in the place of it.

Senator REED. I do not think it got it that way. I think the Government of the United States got that $1,100,000,000 principally from two sources. First, men brought gold there to be coined—gold bullion—and the Government coined it and kept the coin and issued a piece of paper which can be termed a warehouse receipt, which passes current because it really represents the gold and many people prefer it to the gold. That is one great source. The other, as I understand (and I speak with hesitation, because I do not possess that cocksureness about these matters that I probably ought to posses), the other great source has been that the customs when paid had to be paid in gold coin, gold certificates, or greenbacks, and therefore that a large amount of gold flowed into the Federal Treasury. Having been once placed in the Federal Treasury it could be laid aside and gold certificates issued against it. Now, that is the source by which the Government gets it. It does not get it by issuing money and then getting the gold, but it gets the gold and then issues the paper money, to wit, the gold certificates, against it. Am I correct?

Mr. SHIBLEY. Certainly. But why is the gold left in the Central Treasury and the people use the gold certificates?

Senator REED. Oh, it is more convenient.

Mr. SHIBLEY. And the same would be true of the legal-tender notes, the paper currency. If it is legal-tender paper and it does not have the weight of gold, the same thing will occur.

Senator REED. You still have not gotten the gold in. That is the crux of this matter. After you get it in, I grant that you may continue piling up the gold as long as you get a flow of money. But when we issue gold certificates, there is a gold dollar back of it, and we certify that a gold dollar will be issued for the piece of paper when the people want it. There is no question but what you can do that, but I do not see how that plan meets this, because there, in that plan, we get the gold and then issue the certificates. Here you propose to issue the certificates and thereby get the gold. There seems to me to be somewhat a radical difference. There is a difference between a man having a horse and owning it and issuing a bill of sale and a man issuing a bill of sale and thereby getting the horse.

Senator NELSON. He may be able to explain this to your satisfaction.

Mr. SHIBLEY. I call attention to the fact that I stated a moment ago, that I would provide in the law that the reserves to be held by the national banks should be legal-tender paper currency, and that would cause them to release their gold certificates, which would go into the banks of issue—the gold certificates would be driven into the reserve banks. The Government, of course, would help the reserve banks to get the gold that now is in the Federal Treasury. So, in addition to the $1,100,000,000 of gold certificates, there is $150,000,000 that is back of the greenbacks, making one and a quarter billions, which is one and a half times more than the Bank of France has, and the Bank of France has the largest gold reserve in the world. And this billion and a quarter would be six times the gold reserve of the Bank of England.

But in the bills before this committee there are provisions for a crippled paper currency, and if this character of paper currency is provided for in the law, then the national banks will hold on to their gold certificates and gold coin, and no central gold reserve of any considerable size could be built up; just as in Germany, while the paper currency was not a legal tender, there were great difficulties in connection with the central gold reserve. It could not be built up to anything like the size of the French central gold reserve, as I have shown. In 1907 Germany temporarily lost the gold standard of prices, and great injury resulted, as I have shown by quotations from the Germans themselves. In other words, under the bills before this committee we would not be able to build up a gold reserve in the reserve banks. Failure would have to be admitted, the same as was admitted in Germany. Bonds might be issued for gold, which the bankers would draw out, and thus there would again be in operation the same old "endless chain."

Senator HITCHCOCK. You think, then, that as the bill stands now the 12 banks would not be able to build up an adequate gold reserve?

Mr. SHIBLEY. I point to the history of Germany in that respect.

Senator HITCHCOCK. I understood you to argue with the Senator that that was the way you were going to do it.

Senator SHAFROTH. He would get it if you issue legal-tender paper currency and make it the legal reserve in the banks.

Senator HITCHCOCK. I understand that, but the present bill does not make that possible.

Senator SHAFROTH. Suppose you change the bill and put in legal tender?

Senator CRAWFORD. Does not that all amount, then, to the issue of a redeemable paper for gold?

Mr. SHIBLEY. We should have a gold standard and make it absolutely sure that our citizens would be able to get gold at any time.

Senator NELSON. Now, suppose you have the regional banks. They get started issuing legal-tender notes, through which you get the gold reserve. How are the member banks to get the currency?

Mr. SHIBLEY. To get the gold?

Senator NELSON. No; to get the money out of these regional banks, if the member banks want some of that money? How do they get it?

Mr. SHIBLEY. That is my second point. My first point is that a mammoth gold reserve can quickly be built up through the issuing of legal-tender paper currency in exchange for gold bars and gold coin, without capital stock.

Second, as money is needed to move the crops and for other unusual demands within the country, the needs can be met by the issuance of legal-tender paper currency in exchange for commercial paper, the same as in France, Germany, and the other countries that supply an elastic volume of paper currency. Those European countries do not provide that the banks that loan to the people shall part with some of their funds and place them in the banks of issue so that the banks of issue can meet the unusual demands for money within the country. The mere statement of the principle involved exposes the fallacy in the plan. Our banks of issue are not to loan money to the people and therefore will not run any risk of losing more than the profits; therefore capital stock will not be required.

The banks of issue will issue the money when needed, and these banks of issue ought not to ask the banks of deposit to put in some of their money or credits in excess of enough to settle the daily clearing-house balances, and there is no country in the world where such a thing is required. Now, that exposes the basic fallacy in this bill.

The CHAIRMAN. State that again.

Mr. SHIBLEY. The European countries do not provide that the banks that loan to the people shall part with some of their funds and place them in the banks of issue so that the banks of issue can meet the unusual demands for money within the country. That is the principle at stake. We should recognize that principle. Therefore our national banks and other banks of deposit should not be required to place in the 12 banks of issue a large volume of actual capital for the purpose of meeting unusual demands for money. The elastic volume of paper currency and the mammoth gold reserve should be used to meet the unusual demands.

Senator NELSON. What would the paper currency be issued upon?

Mr. SHIBLEY. A mammoth gold reserve would exist.

Senator NELSON. I know, but they must issue the paper currency on something.

Mr. SHIBLEY. The 12 banks of issue would take commercial paper, as is provided in this bill.

Senator CRAWFORD. For every dollar of that gold reserve they have already got out a dollar of this paper money that they used in getting the gold in.

Mr. SHIBLEY. That is the same as they do in France and Germany.

Senator CRAWFORD. Now, when you go to increase it, they have issued, say, more than a billion dollars for gold, which is the full face value of the gold.

Mr. SHIBLEY. The result in France is that they have a 60 per cent gold reserve; in Germany, 70; England has a 60 to 70 per cent gold reserve under that very system.

Senator CRAWFORD. In other words, the whole system is based on the credit of the Government.

Mr. SHIBLEY. No; the gold is stacked right up in the banks.

Senator CRAWFORD. They got that on the credit of the Government.

Mr. SHIBLEY. They issued legal-tender money.

Senator CRAWFORD. That is simply using the credit of the Government.

Mr. SHIBLEY. It is money which the Government issues. The people must have a medium of exchange.

Senator CRAWFORD. It is a promise to pay.

Senator SHAFROTH. The impelling force in his argument is that when paper securities are presented a full legal-tender dollar shall be issued. Then a provision in the law requiring that the banks of deposit shall keep as their reserves legal-tender money, which would force out the gold from these banks and thereby put it in the Federal reserve bank and putting the legal-tender money in the member banks.

Senator NELSON. Is that your theory?

Mr. SHIBLEY. That is the theory exactly, and the further fact that the people do not want to carry around gold, but they take something which represents gold and pay their debts the same as in Germany and France and the other countries.

Senator CRAWFORD. What is the use of having this gold if it is a mere trinket? You are using that money directly issued by the Government, you are making that legal tender, legal reserves, and so forth. What is the use of having all that around there? Why not eliminate that and use this paper money?

Mr. SHIBLEY. Ask the Bank of France why it is so strong with its $800,000,000 of gold. It is because it has the gold, and we likewise need a large central gold reserve.

Senator CRAWFORD. You are going in debt for it?

Senator HITCHCOCK. The accumulation by the Bank of France has been brought about in this way: The Bank of France receives deposits from the Crédit Lyonnaise and the other great banks of France. They are partly in gold and partly in notes and partly in silver. When it pays out, instead of paying out gold it pays out in notes and holds on to its gold. It receives more deposits constantly and always holds on to the gold and pays out as many notes as possible, so that gradually, through this process, the Bank of France accumulates a gold reserve.

Mr. SHIBLEY. That is it exactly. The law should further provide the same as the English law—that the gold that comes from the miners should be deposited with our reserve banks, so that they can

issue the paper money against it. We would soon have a gold reserve of a billion and a quarter, six times as much as the Bank of England, and when we shall need money to move the crops our 12 banks of issue will issue paper currency.

Senator NELSON. Would not your plans lead to 1 central bank instead of 12?

Mr. SHIBLEY. Oh, my, no. Twelve banks are away ahead of any 1 central bank.

Senator NELSON. I mean that your plan of running without any capital and issuing legal-tender notes for gold, would your banks be banks of issue?

Mr. SHIBLEY. Yes.

Senator NELSON. Twelve banks of issue?

Mr. SHIBLEY. Yes; and this bill provides that they shall be banks of issue.

The CHAIRMAN. Did you not mean to say with regard to capital, that the Bank of England, while it has a nominal capital, has every dollar of the capital in Government securities, so it is not active, and the same thing is true of the Bank of France, that the capital actually is invested in Government securities, and is not therefore a part of the process?

Mr. SHIBLEY. That is it exactly, The banks of issue have no capital stock.

The CHAIRMAN. No active capital stock?

Mr. SHIBLEY. No active capital stock. The Bank of France has 100,000 depositors and not a dollar of active capital stock. The capital stock was paid in years ago and invested in Government securities. They are going on it without active capital stock. We in this country are not planning that the Federal reserve banks shall loan money to the people. These reserve banks are simply to be banks of issue plus the holding of a central gold reserve and the holding of enough of the actual bank reserves to settle the daily balances in the clearing-house system. We would not think of asking the bankers to subscribe a capital stock to a subtreasury system, because you would say, "When we want currency we issue it. No capital stock or bank reserves would be placed in the subtreasury. But we want a clearing-house system for the entire Nation." And therefore I favor the Federal reserve system, and that the member banks should place with the reserve banks enough funds to settle the daily balances. Under this plan practically all of the 25,000 banks come into the system, provided we leave the fixing of the rates to the national board. Then we would have the greatest system in the world, but we can not have it without having a legal-tender paper currency.

Senator NELSON. The country banks, especially in the South and Southwest. are directly opposed to this clearing-house system in this bill.

Mr. SHIBLEY. Because the bill says they must exchange at par. The bill is wrong, in my judgment, in planning to fix the rates. That ought to be left to the national board. Therefore, I say, strike out the fixing of the rates in this bill. And do not ask the banks for a dollar of capital stock for the banks of issue and only for enough of their reserves to settle the daily balances. Also leave it purely optional with the banks to come into the clearing-house system.

BANKING AND CURRENCY

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SIXTY-THIRD CONGRESS
FIRST SESSION

ON

S. 2639

A BILL TO PROVIDE FOR THE ESTABLISHMENT OF FEDERAL RESERVE BANKS, FOR FURNISHING AN ELASTIC CURRENCY, AFFORDING MEANS OF REDISCOUNTING COMMERCIAL PAPER, AND TO ESTABLISH A MORE EFFECTIVE SUPERVISION OF BANKING IN THE UNITED STATES, AND FOR OTHER PURPOSES

PART 24

[Printed for the use of the Committee on Banking and Currency]

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1913

COMMITTEE ON BANKING AND CURRENCY.

UNITED STATES SENATE.

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GILBERT M. HITCHCOCK, Nebraska.
JAMES A. O'GORMAN, New York.
JAMES A. REED, Missouri.
ATLEE POMERENE, Ohio
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JOSEPH L. BRISTOW, Kansas.
COE I. CRAWFORD, South Dakota.
GEORGE P. McLEAN, Connecticut.
JOHN W. WEEKS, Massachusetts.

JAMES W. BELLER, *Clerk.*

Senator NELSON. What is the occasion for having them contribute capital? What is the occasion for asking them to come in? What need is there for them to come in?

Mr. SHIBLEY. There is no need, unless they want to exercise the clearing-house privilege. If they do, well and good.

Senator NELSON. Would it not be simpler to say that all banks of the country—national and State banks and trust companies—can all make these regional banks their clearing houses?

Mr. SHIBLEY. Yes; most assuredly.

Senator NELSON. Then, if the banks would not be compelled to contribute anything, I imagine there would not be any need of their coming into the system.

Mr. SHIBLEY. Leave it purely optional.

Senator NELSON. There would be nothing for them to come in for if they were not to contribute their stocks or reserves.

Mr. SHIBLEY. They would have to contribute just enough reserves to settle the daily balances. That they would be willing to do.

Senator NELSON. That is the same thing they do at the banks now?

Mr. SHIBLEY. Yes. Another point is that each trust company and State bank ought to be able to get money from the regional banks whenever they are in trouble, as all banks of deposit do in other countries. The president of the Bank of France states that whenever a bank in France needs money it makes application to the Bank of France, and it does what is right. The Bank of France is a bank of banks. It is just as simple as a, b, c.

Senator CRAWFORD. This is really a revolutionary proposition. Heretofore when the Government has wanted gold it has sold bonds——

Mr. SHIBLEY (interposing). Who was in power?

Senator CRAWFORD. Here, all at once, we are going to get a billion dollars in gold, and the way we are going to get it is to issue notes.

Senator NELSON. Make them legal tender.

Mr. SHIBLEY. That is the French system, the English system, the German system, and the system of the other European countries, except Scotland. Do you understand that? I am saying that that is a fact. It is the system that Germany accepted after losing her gold standard.

Senator NELSON. I do not know why we should be issuing these gold bonds.

Mr. SHIBLEY. Who was in power? Were the people's representatives in power? The seat of political power is the main thing to look for. Now that the political power in this country is where it ought to be, everything will come out right.

(Thereupon, at 5.20 o'clock p. m., upon motion of Senator Weeks, the committee went into executive session and afterwards adjourned to meet at 10 o'clock a. m. to-morrow, Tuesday, October 7, 1913.)

TUESDAY, OCTOBER 7, 1913.

COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE,
Washington, D. C.

The committee assembled at 10.10 o'clock a. m.

Present: Senators Owen (chairman), Hitchcock, Pomerene, Shafroth, Hollis, Nelson, Bristow, McLean, and Weeks.

The CHAIRMAN. We will hear you now, Mr. Shibley.

STATEMENT OF GEORGE H. SHIBLEY—Continued.

XVI.

Mr. SHIBLEY. Mr. Chairman and gentlemen, last evening when I closed I was giving the reasons why, in my judgment, no capital stock is required for a bank of issue, or for the 12 banks of issue in this country. As I pointed out, a very large gold reserve can be built up through the issuance of paper currency the same as is done in Europe; and, secondly, that the elastic volume of currency will meet the unusual demands, the same as in Europe.

Another way to expose the fallacy in the proposal for the capital stock in the proposed banks of issue is to consider what would actually take place should a capital stock be subscribed and paid in.

Suppose that capital stock should be subscribed to the 12 banks of issue and be paid in, what would the banks of issue do with it?

The answer is that the commercial paper and cash received in payment would be treated as follows:

The cash received would be loaned out from day to day, for there would be no object of holding it in the banks, because the gold reserve would be built up by exchanging paper currency for it, and, should there be at any time an unusual demand for money it would be met by issuing paper currency. So the result would be that the cash received in payment of the capital stock would be loaned over and over again. This would be worse than useless. The capital that would be paid into the banks of issue had much better remain where it now is as the result of industrial development, or where it would go under an improved system. Leave with the bankers the control and investment of their capital and not place it in the 12 banks of issue, subject to the management of boards of directors that should represent the public in connection with the control of the purchasing power of money. The two functions of regulating the private banks in the interest of the public and the loaning of huge sums of capital to the banks merely for the purpose of loaning it is manifestly a wrong policy. The boards of directors of the banks of issue determine the purchasing power of money within their respective regions, just as the Interstate Commerce Commission determines the height of the railroad rates. Now to provide that the directors of the banks of issue shall also take over some $600,000,000 of actual banking capital and turn it over each 60 or 90 days, and with no other purpose than that the bankers shall name six of the nine directors of each of the banks of issue would be folly, and would be exposed to the people in next year's campaign by the opposition leaders. The weekly statements by the banks of issue would be used to demonstrate

the system. If the management should attempt to hold large quantities of cash derived from actual banking capital and thereby endeavor to prove that there was some reason for providing the capital stock, then the opposition leaders would show that business conditions were being injured thereby—that had this bank capital been left with the banks it would be in use. So in no possible way could the boards of directors of the 12 banks of issue conceal the unwise plan of providing capital stock by the bankers for what should be public institutions.

Furthermore, the inefficiency and more or less of graft that would develop from the management of hundreds of millions of actual bank capital by political appointees would give rise to popular discontent with the leaders who established the system. The history of the two banks of the United States ought to be a sufficient warning against te unnecessary mixing of politics and the banking business. President Andrew Jackson's description of the evils in connection with the Second United States Bank may be found in Senate Document 135, this session (1913), pages 64–70.

Our 12 banks of issue ought not to touch the banking business, confining their duties to the building up of the gold reserve and the supplying of an elastic volume of paper currency, combined with a clearing house for the entire Nation and the carrying of just enough of the bank reserves to settle the daily balances. That would leave with the bankers the management of the capital which the bankers' expert advisers have planned for the 12 banks of issue—planned for these banks of issue in order that the bankers shall have a reason for insisting on their control.

The providing of capital stock by the bankers would tend to defeat the progressive democracy. So there is every reason why the provision in the bill for capital stock should be dropped out. It would result in a far better system, and result, also, in laurels for the progressive democracy, instead of tending toward its defeat. Briefly let me present the argument that would apply should the Democratic organization in charge of the Federal Government go ahead and place upon the statute books the provision for capital stock and the corollary, that of placing the bankers in control of the 12 banks of issue:

First. It would be pointed out that the capital stock is a special privilege to the bankers, the people not being permitted to subscribe.

Second. That this capital stock, by a private interest in what should be a public institution, is worse than useless.

Third. That this special privilege is used as a basis for placing under the bankers' control the people's interest in the monetary system and the purchasing power of money. The bankers are to elect six of the nine directors in each board, which would be conclusive proof that the bankers were in control. That would be complete proof that the so-called progressive democracy had been false to the people in the banking and currency law. "False to the people," I say, because from this hour forward there is public notice and proof that Prof. Laughlin and his "sound-money" colleagues have tricked the House of Representatives, which relied upon its Committee on Banking and Currency. Nine of the progressive Democrats in the House voted against the bill in the final vote in the caucus.

And there are minor parts of the bill as it now stands that are especially obnoxious to a self-respecting and self-governing people. This is especially true of the provision in section 4 that the bankers shall elect three members of each board of directors, who "shall be fairly representative of the commercial, agricultural, or industrial interests of their respective districts." You will find this in lines 9 and 10, page 8 of the bill. Here it is openly stated that in the control of the purchasing power of money the organized bankers shall be the guardians of the organized farmers, organized wage earners, and organized business men, as well as the guardians of the unorganized men and women in these industries.

That is not fair to the organized farmers, the organized wage earners, and the organized business men. The very least that would satisfy these portions of the sovereign power of the Nation would be to direct that they nominate candidates and that selections be made from among these by the national board subject to confirmation by the Senate. The Senate should confirm in order that the public shall have an opportunity to protest against selections by the national board. The President's appointees are confirmed by the Senate, and the national board's appointees ought not to be exempt.

But the fact is that the proposal that the bankers shall elect six of the nine directors is because the intention is, manifestly, that the will of the bankers shall prevail, because they are putting in hundreds of millions of dollars of capital for which they are responsible. That argument is sound, but as that capital would be handled by boards that are in politics, as compared with being handled by the banks themselves, so it would be worse than useless, there is every reason for dropping out the provision for capital stock. There is a practical way for doing this, but before taking that up I desire to point out that the banker's own best interests, as well as the interests of the general public, require the proposed change.

In both the administration bill and the House committee's bill the paper money to be issued under the new law is to be the obligation of the United States, whereas the obligation should be that of the Federal reserve system, the system that is to hold the gold reserve and the commercial paper for which money shall have been issued. Whether or not the obligation shall be stated the one way or the other may at first sight be considered as of no great moment; but view with me for a few moments, please, the reasons why the money issued under the new system should be the obligation of the Federal reserve system.

The regional banks of issue, 12 in number, will be a vast improvement over a central bank of issue or the issuance of paper currency by the Treasury Department and subtreasuries, in which a central power would operate, because in the regional banks of issue there will be 12 boards, each representing the people of the community. In that way each section of the country will possess its own board of directors, whose duty it will be, first, to help determine the height of the interest rate for money and therefore determine the average of prices for commodities at wholesale; second, to operate the rediscount system for commercial paper, which will include the prevention of "runs" upon the banks and the guaranty of the safety of bank deposits; and, third, to operate the transfer system for money and

credits. Other functions for the Federal reserve banks will arise from time to time.

This Federal system, as distinguished from a centralized system, will result in the largest possible amount of home rule. The national board will only deal with national problems, leaving to the boards of directors of the Federal reserve banks the entire management of details. Thus, the operating of the rediscount system will be under the control of men who live in the community and are leading citizens thereof.

And the paper currency issued through this Federal system ought to be the obligation of the banks of issue plus the obligation of the Federal reserve board, and the result would be that in time of war, if ever again we shall suffer that catastrophe, the control of the price level and volume of paper money will be separate and distinct from the Treasury Department and Congress. That would be important. In France, for example, during the terrific Franco-German War, the control of the price level was entirely separate from the legislative power and the executive power and the results were the very best. The price level for doing business was properly maintained throughout the war; and, then when the German troops occupied Paris, the Bank of France with its gold reserve was not touched; whereas had the French Government been in direct control the German general in his occupancy of Paris would have confiscated the gold reserve, and the price level would have been tremendously irregular. Later, when the French Government was in the hands of the Commune it did not interfere with the control of the price level and volume of money, except that funds were demanded of the Bank of France and paid to the Government. But there was no interference with the most important function in government and which had been lodged with the Bank of France, namely, that of controlling the volume of paper currency in combination with the metallic money, thereby controlling the price level whereby business is conducted.

Let us profit by this successful experience of the French people through the Bank of France. In other words, let us completely separate the Treasury Department from the Federal system of monetary control, placing 12 boards of directors in control in the several regions of the country, thereby controlling the lifeblood of commerce, namely, the volume of money and of bank credits.

To thus separate the Treasury Department and Congress from the banks of issue it will be necessary to provide that the paper money to be issued shall be the obligation of the Federal reserve system, and the only way that this can be done is to first drop from the bill the provision for capital stock by the bankers, and provide that the boards of directors of the 12 Federal reserve banks shall represent the people and not the bankers. That is self-evident. The Federal reserve banks should be publicly owned and operated, the same as is the Treasury Department of the Federal Government. When the Federal reserve banks are publicly owned and operated they properly can issue the paper currency, for then it will be Government currency, as distinguished from the banker's currency. By thus providing for bank notes to be issued by the Federal reserve system the country can secure the full advantages of the truly Federal system. It will truly be a Federal system as distinguished from a central

bank, because each region in our great country will possess its own bank of issue, separate from the United States Treasury, yet all of the banks of issue will be linked together through the national board, which should control the entire gold reserve; yet each region will possess the organization that is to decide just how the paper currency shall be issued and to whom. This important function for the citizens of each region will be home rule, which would be denied under a central bank.

To secure all of this the primary step is to drop from the bill the proposal for capital stock contributed by the bankers.

Another point, and it is of great moment to all who possess capital in the privately owned banks. By not providing a capital stock for the Federal reserve system it will lessen the tendency to change it and provide that the 12 regional institutions and their numerous branches shall include in their work the accepting of deposits from individuals and the loaning of capital to them. The present bill very properly does not include these functions, relying upon the privately owned banks to compete among themselves, under proper regulations. But if capital stock is provided in these Federal reserve banks and their multitude of branches, then a demand will soon arise from some of the progressive leaders that the people be authorized to supply capital stock in these institutions and become depositors and receive loans, the same as the banks, and this system actually prevails to-day in France and all of the other countries in Europe, including England. The fact is that the proposed Federal reserve system is an improvement over the European plan because it will supply a means whereby all of the privately owned banks can be unified into a single organization for supplying a clearing-house system for the entire country—a cheap system of transferring money and credit, while preserving competition in the loaning of funds and in supplying banking accommodations. The bankers, however, in some of the large banks in this country, in their efforts to secure special privileges for themselves, at the expense of not only the people but the country banks, are hastening the day when our Government will actually be placed in the banking business, as in Europe, instead of merely issuing the currency and controlling the price level.

You see that there are reasons from the bankers' standpoint why the proposed capital stock by bankers should not be placed in what should be purely Government institutions; and public interest coincides in this case with the bankers' interests. The two are in harmony.

I wish not to amplify somewhat a few points which I have merely mentioned in passing.

I will speak from the standpoint of the party in power and as a member of that party.

The people of this country have only just come back into power, after being out of power in Federal affairs since the debasement of the national convention system in 1844, except that the people afterwards secured control of the Federal Government for a few months after 1860.

The debasement of the national convention system in 1844 is described by John C. Calhoun in an address to the Democrats of the country in that year withdrawing from the race for the presidential nomination. Benton, the great Missourian, in his Thirty Years in

the United States Senate, written in 1853, also describes the debased national convention whereby the people of this country lost self-government in national affairs. Machine rule is the usual term for the debased convention system.

But the people are now back in power, having established direct nominations and other improved governmental machinery, and the people's representatives who are in office should give as little offense as possible in reconstructing the currency system. It is the belief of many that poor judgment has been exhibited in proposing to actually force the bankers to contribute some $600,000,000 of capital and yet deny them the control of it in the national board, proposing to place the control in political appointees. The way out is to drop the requirement for capital stock and large reserves. That will remove the reason for criticism.

Then the progressive democracy can go into the forthcoming campaign in excellent shape. We certainly should not be obliged to face the following argument:

We are told—

Says a prominent banker—

that $650,000,000 to the success of the Federal reserve bank system, and, by implication at least, we are told we are not worthy to be represented on the Federal reserve board.

If the Government can rightfully compel the banks to contribute this vast sum for this purpose, would it not follow that it could compel corporations doing an interstate business to invest their funds for some other purpose; and if so, how long do you think there would be any capital invested in enterprises over which this drastic prerogative could be exercised by the officials of the Government?

It is one of the traditions of the Angle-Saxon race and in accordance with the spirit of true Americanism that capital must be managed by those who supply it, and, furthermore, that the investor must be free to decide whether or not he shall make investments; yet we are confronted with a plan which proposes to compel the banks of the country to turn over to a political committee virtual control of about 10 billions of dollars of banking power, the result of 50 years of conscientious labor on the part of the officers of 7,000 national banks in the United States.

The banker further said:

I contend that this drastic and wholesale shifting of reserves from the natural centers where the requirements of business have caused them to flow automatically will disturb business and greatly impair the ability of the public to secure credit accommodations.

On this same point he said:

You can regulate and supervise but when you try to bring about an entire change from those natural conditions created by the development, growth, and natural trend of our business and commerce, you are undertaking a task fraught with a great danger. (Mr. George M. Reynolds before the Minnesota State Bankers' Association.)

This argument is unanswerable, in my judgment, and the way to meet it is to strike out the provision for private capital stock in what should be public corporations. Furthermore, the proposed transfer of hundreds of millions of dollars of the banking capital from the places where it has been built up by competent hands and brains and place it in the control of political appointees, whose necessary duties are along an entirely different line, would be suicidal for the party because harmful to the country. Experience shows us every

day that while political control is needful in regulating the affairs of the people, yet to the extent that public ownership and operation is engaged in at the present stage of our development it is much less effective than private ownership and operation. This difference would be several times worse by attempting to combine the control of the monetary system with the banking business as proposed. The investing of some $650,000,000 each two or three months by political appointees and bankers' representatives would lead to all sorts of "grafts" and attempted "grafts," which would give the opposition party leaders the opportunity for which they naturally are longing. Charges of malfeasance and of misfeasance would quickly be made, and the charges would be pressed until investigation would have to be gone into.

This sure trouble, should the present plans for capital stock be carried out, can all be side-stepped by simply dropping the provision for the bankers' capital stock and huge bank reserves in the banks of issue.

Furthermore, consider the embarrassment should the $650,000,000 be levied upon by the party in power as proposed and then the bank statements should show each week that it was simply being reinvested and was not where it could be of any assistance in case of panic because not needed! Explanation would have to be made—the truth would come out. Or, suppose that the 12 banks of issue should withdraw from commerce hundreds of millions of dollars of actual banking capital and it should lie stacked up and utterly useless, then that would be exposed.

Avoid such a condition, is my advice. You now are facing the two alternatives of squarely recognizing that a mistake has been made in suggesting private capital stock in what should be a public institution, or of going ahead with the incongruous affair. Progressive Democracy can not afford to be placed permanently in this awkward position.

The present position has come about through a nation-wide "conspiracy of silence." There are plenty of people in this country who have known right along the true facts concerning France, Germany, and England, and should have helped the patriotic and progressive leaders to have gotten this bill into proper shape at the start, but as this was not done, the thing to do is to do it now. Section 3 can be recast and be made to set forth the powers and duties of the Federal reserve banks. It is thoroughly practicable.

One more point in this connection: The farmers and the wage earners will have to be permitted to nominate their representatives on the boards of the banks of issue or there will be far-reaching trouble in next year's campaign. They will not quietly submit to having their interests in the monetary system placed under the guardianship of the bankers. And in order to provide that the farmers and the wage earners shall nominate their own representatives there should first be dropped the requirement for capital stock by the bankers.

So it all simmers down to that one point. Make the necessary change as to capital stock and the rest will follow. And a good and sufficient reason for dropping the proposed capital stock is that a legal-tender paper currency will be so effective an ally to the gold standard that the capital stock will not be needed. That is all that

need be said, after having explained the history of paper currency in Europe.

Senator BRISTOW. Have you explained just how this bank is going to operate without capital stock?

Mr. SHIBLEY. I presented most of that last evening.

Senator BRISTOW. I was here last evening, but did not get it clear. I suppose I was not sufficiently familiar with it.

Senator SHAFROTH. Suppose we allow him finish his statement, and then we can ask him questions.

The CHAIRMAN. I think that would be better.

Mr. SHIBLEY. The remedy is simple and thoroughly practicable. It is to leave sections 1 and 2 of the bill as they are, with minor changes, so that the 12 Federal reserve banks shall be organized. The next section, section 3, which now provides for the capital stock, should be recast by enumerating the powers and duties of the Federal reserve banks. What I suggest in this respect is as follows:

SEC. 3. The powers and duties of each Federal reserve bank shall be:

(a) To establish and maintain throughout the Nation an improved system for the transfer of money and credit, to be known as the Federal reserve system, to consist of 12 or more Federal reserve banks, also a supervisory board, and as many of the privately owned banks as care to join, each of said privately owned banks to deposit with the Federal reserve bank in its district sufficient reserves to settle the daily balances.

In explanation I will add that this function of the forthcoming institution, plus the maintaining of a mammoth gold reserve, would determine the name, the Federal reserve system, consisting of 12 regional banks and 12 boards of directors thereof, along with a national supervisory board and as many of the privately owned banks as care to join the Federal clearing-house system.

Each of the 25,000 banks of the country should come into this Federal clearing house, and they doubtless will do so in order to hold their depositors, provided the conditions for admission are not unreasonably severe. All that actually is needed is the deposit of sufficient reserves to meet the daily balances. No capital stock is required in a clearing house. That is self-evident.

Paragraph b, of the powers and duties: Here is the keynote of the system, as I see it. The existing bill makes it very difficult to understand just what the Federal reserve system is to be. Here is what I propose in paragraph b of section 3:

(b) Through the mechanism hereinafter provided each Federal reserve bank shall control the interest rate for money within the district where the said bank is located, the rate of discount to be subject to the supervisory power of the Federal reserve board provided for in this act, and the aim shall be to promote stability in the purchasing power of the standard of value, thus to aid in the development of the industrial system and of prosperity and deal justly as between the industrial groups.

Senator NELSON. That is the keynote of the system?

Mr. SHIBLEY. Yes; that is the keynote.

I will further add, parenthetically, that raising the interest rate for money, that is, raising the rediscount rate for commercial paper, which each Federal reserve bank is authorized to do, will actually increase the purchasing power of the money thus put out, and this will tend to make all money in use in the district more valuable, that is, that it will purchase more commodities, which means that the prices for commodities will tend downward. That is everywhere

recognized. Conversely, the lowering of the interest rate for money will at once decrease the purchasing power of the money so put out and also all money in use within the district will tend to buy less. These are the principles whereby the Bank of England and the other banks of issue operate. They, if necessary, retire money from circulation in order to actually control the bank rate.

Next is paragraph (*c*) of powers and duties:

(*c*) In connection with the official rate the Federal reserve bank shall at all times (1) offer to supply money to the national and such other banks as comply with the requirements of this act, the cash to be distributed by rediscounting short-time business paper as hereinafter provided, and (2) be in a position to reduce the volume of money in circulation (*a*) by retaining the cash received from the payment of the short-time business paper, (*b*) by reselling business paper should offers for it be made, and (*c*) should occasion require to retire from time to time some of the existing currency or its substitutes. [Two additional sources of change in the volume of money in circulation will be the inflow and the outflow of gold from our shores.]

In explanation I will state that if the controlling power is to bring about the needed stability it must be supplied with the means for increasing the volume of paper currency when occassion requires, and with a suitable means for reducing the volume of money in circulation whenever occasion requires. That is self-evident, and yet the bills before this committee are deficient in not providing for a sufficient retirement of the money in circulation. No provision has been made for the permanent retirement of any of the existing paper money, yet the percentage of reserves in cash to be held by the naticnal banks is to be cut in two, thereby permitting these banks to practically double their credits unless the volume of money in circulation is reduced.

Senator WEEKS. You do not mean literally cut in two?

Mr. SHIBLEY. According to the statement in the report on the banking and currency bill in the House. I will refer you to pages 65 and 66 of that report, and I have quoted the figures in an earlier part of my statement.

Paragraph (*d*) of powers and duties:

(*d*) The national board of the Federal reserve system shall be placed in control of the gold in the United States Treasury, subject to the existing obligation with the holders of gold certificates, and there shall be maintained a gold reserve for the entire Nation, so that demands for gold from abroad will not affect the volume of money in circulation in the United States, and that the gold standard of prices will assuredly be maintained, resulting in a fixed par of exchange with the other countries using the same standard.

(*e*) In connection with the future issuance of paper currency, which shall be legal tender, there shall be back of every dollar issued an equal amount of gold or an equal amount of commercial paper, as hereinafter provided for, or bonds of the United States or of a State or of a municipality of this Union, and every dollar of paper currency in circulation from whatever source shall be redeemable in gold at the main offices of the Federal reserve board upon demand, at par.

Senator NELSON. Do you not mean Federal reserve banks instead of Federal reserve board?

Mr. SHIBLEY. No; I think the national board should have control of the country's gold reserve. This plan I am proposing gives a central control to the gold reserve, so that only a single reserve will be had for the entire country instead of 12 separate reserves. The national board will secure control of the gold when it issues the paper currency for it. This plan gives a central control for the gold

reserve while giving Federal participation in the fixing of the interest rate and price level; also the passing upon the commercial paper will be by boards representing the 12 regions.

There can be inserted in the bill a requirement that a certain percentage of gold shall be kept against the paper currency issued, say 33⅓ per cent, but the percentage under a legal tender paper currency will soon be 50 to 60 per cent. However, if for any reason the gold reserve should tend downward, there should be no legal limit at 33⅓ per cent because there should exist the other form of limitation, namely, that of maintaining stability in the purchasing power of money. While that instruction was being carried out the gold reserve might with safety fall to 30 per cent and even lower, provided the law did not require that figure or a higher sum. In France after the Franco-German War there was practically no gold reserve for a time, and yet the premium on gold was less than in New York City during the panic of 1907.

I now pass to an enumeration of the other powers and duties of the Federal reserve banks which section 3 should specify:

(*f*) Branches within the district shall be established wherever the board of directors shall deem best, subject to a right in the Federal reserve board to finally decide.

(*g*) With the consent of the Federal reserve board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, prime foreign bills of exchange arising out of business transactions which bear the names of two or more responsible parties or are secured on the property sold. (Compare p. 27 of House caucus bill.)

(*h*) To accept payments for the Federal Government without charge, and, without charge, to make payments for the said Government to the extent of its credit balance, and as far as may be requested by the said Government to take over for safe-keeping or management, free of charge, securities and valuables belonging to it or placed under its management. (From Swiss law.)

(*i*) The said bank shall become a body corporate, and, in the name designated in the organization certificates, shall have power to perform all the acts necessary and proper to carry out the purposes of this act, and shall have succession for a period of 20 years from its organization unless sooner dissolved by act of Congress.

(*j*) The Federal reserve board and the boards of directors of the Federal reserve bank shall not invest funds in real estate except with the consent of Congress.

These 10 paragraphs bring together in one place an outline of the powers to be conferred, a plan that is followed in the laws in Europe establishing banks of issue. In Switzerland, for example, the law openly declares as follows:

ART. 2. The chief function of the national bank is to regulate the monetary circulation of the country and to facilitate the operations of payment. Furthermore, the bank must take over the exchequer business of the Confederation free of charge, so far as it may be called upon to do so.

That is a plain statement of the object of the law, and I suggest that the bill to be reported by the committee shall be equally frank.

I have shown a practicable method for reconstructing the House bill. Retain section 1, slightly amend section 2, and in secton 3 enumerate the powers and duties of the 12 Federal reserve banks. That is practicable.

In enumerating the powers and duties there can be established an effective system without any capital stock, because none is needed in

connection with the clearing house for the Nation, and no capital stock is required in connection with our proposed banks of issue, because they are not to accept any considerable risk. They are not to make loans to business men. It is the risk of losses by the banks in the making of loans that calls for capital stock in the privately owned banks, whereas in a bank of issue, a bank which issues paper currency and receives the vast profits thereform, there is no need for capital stock, even in the case of the Bank of France, which has 100,000 depositors among the people of France. In 1909 the Bank of France had branches in 467 places throughout the nation and had become "the bank of all the French public," as its president stated in his interview with the Aldrich Monetary Commission. This is on page 208. And yet this great bank had not a cent of capital stock in use in the banking business. The capital stock that had been subscribed and paid in many years before had been retired from use as bank capital by being invested in Government securities. And the same is true of the Bank of England. These facts are shown in each weekly statement. Samples of these weekly statements are at pages 534–537 of these hearings.

So it is perfectly clear that a bank of issue that does as much private business even as the Bank of France and the Bank of England have no need for capital stock. Much less do the 12 banks of issue in our proposed Federal system require capital stock, for they are only to issue paper currency as needed and build up a gold reserve, taking no risks whatever. Every dollar of commercial paper taken by the 12 banks of issue will be indorsed by a bank, in addition to the responsibility upon which the bank itself relies.

And in France, with its manifestly successful system, every bank is at liberty to go to the bank of issue or the 467 branches and get cash whenever they need it. This is found in Interviews, pages 206 and 207. There is no legal requirement that a bank shall keep any part of its reserves with that bank of issue. This is in Interviews, page 202. Why should there be? No aid is required by the bank of issue, for it issues the paper currency and holds the gold reserve.

There should be no trouble in understanding this perfectly simple system in France, and the system that we require, were it not that since 1907 the bankers have set out to get control of a unified monetary system for this country. They have practiced almost every kind of deception, the worst part of it being an assertion that the people of this country are possessed of instincts of confiscation, and, therefore, should not be permitted to contral the volume of the paper currency, as they would inevitably overissue it and thus rob creditors.

This assertion against the people by the bankers is the fundamental reason assigned against control by the people's Government of the volume of paper currency and against Government control of the price level for commodities—the purchasing power of money.

What the bankers are doing is to selfishly try to step in and get for themselves a special privilege, while the people are actually insisting against inflation in order to put an end to the rising price level for commodities. Only the business men, who do not constitute one-tenth of the people, would be benefited by inflation, and now that the people possess the direct primary they are the sovereign power in this country and will not permit either an undue inflation.

nor an undue contraction, for it would make unstable the purchasing power of money, the standard of value, and this would injure the people.

As to what are the principles that are required to constitute a successful banking and currency system in this country, I desire to again emphasize the fact that nowhere in Europe are the private banks forced to contribute a cent of their capital to a bank of issue; and so none of our banks should be forced to place a dollar of their capital with a bank of issue, leaving it entirely optional with the banks to come in and stay out. Those that come in should be obliged to deposit enough funds to pay their daily balances. That should be all.

In Germany, in 1909, the Government expressly refused to require the banks to keep on deposit with the bank of issue 1 or 2 per cent of the amount of their deposits. Yet with this history of an express refusal to adopt the policy which the Aldrich bill proposed, and which the Glass bill proposed, the Administration was induced through the keeping secret of the German action, to endorse the plan which had first been incorporated in the Aldrich bill that the banks be required to deposit with the banks of issue 5 per cent of their deposits.

The proposal in Germany for actual bank reserves to be deposited in the bank of issue was discussed by the German commission some six months after the Government had rejected the idea. This discussion is in volume 2 of the German Bank Inquiry of 1908, indexed under "Deposits (etc.), deposition of a portion of, in the Reichsbank," published as Senate Document 407, part 2, 1911.

I have stated that nowhere in Europe are the private banks required to assist the bank of issue. No deposits by the private banks in the bank of issue are required. And yet each private bank receives aid from the bank of issue wherever it is practicable to give it, whereas in the Aldrich bill and in the bill which the administration has been induced to accept and which the House has passed, the aid from the 12 banks of issue to private banks is to be limited to only one-third or one-half or one-fourth of the private banks. This is not for the best interests of the country, I believe. The fundamental fallacy is in the assertion that the capital stock and bank reserves should be subscribed by the banks that are to receive aid in time of trouble.

To further show that particular fallacy permit me to lay before you two instances of how the French bank of issue has met monetary crises, and it ought to be clear that each one of our State banks and trust companies should by law be entitled to receive all the aid that the officials of our banks of issue shall be able to give, leaving it to their discretionary power, as in France.

The two instances in France are as follows:

In the year 1889 in the city of Paris there was an attempt to corner the price of copper, which failed, and one of the Paris banks became largely involved. The president of the bank committed suicide, and there ensued a "run" on the bank. But the bank of issue, the Bank of France, came forward and loaned it 140,000,000 francs on its commercial paper and other securities, and the depositors were paid off without closing the bank.

The way it came about that so much money, actual cash, was put out and yet no scarcity of money in the other banks was created, was that the bank of issue issued paper money and used as much of the gold reserve as it cared to. Then, as rapidly as the commercial paper fell due, it was paid to the bank of issue, which thereby received back as much money as it had paid out, and this was held out of circulation. This plan worked perfectly, for the paper currency was legal tender and so filled every need. Doubtless no gold from the reserve was paid out.

One of the places where this handling of a great monetary crises is described is in a volume entitled "Evolution of Credit and Banks in France," by Andre Liesse, and it is republished in the series issued by the National Monetary Commission, Senate Document 522, during the year 1909. See pages 184 to 186.

Two years after the panic in Paris, caused by the collapse of the corner in copper, another great bank failure occurred.

In four days the depositors withdrew 19,000,000 francs. Then a syndicate of bankers was formed to go security to the amount of 15,000,000 francs, and the Bank of France advanced 60,000,000 francs in actual money, receiving as security the bills and notes which the bank held and its other assets.

The money issued was largely bank notes, a full legal tender, and later the volume of money in circulation was quickly reduced through the payment of the commercial paper as it fell due. This is found on page 190 of Evolution of Credit and Banks in France.

These illustrations of the way the Bank of France handled the monetary crises demonstrate the great benefits derived from an elastic currency and one that is full legal tender. I want you to get firmly fixed in your minds the fact that the Bank of France, the bank of issue of the French people, has handled monetary crises within the country by issuing full legal tender paper currency. That was all there was to it, and it was enough. The paper currency was quickly retired from circulation. Complete proofs are the weekly statements of the Bank of France.

When commercial crises have occurred outside of France, the central gold reserve in the Bank of France has been used as thought best.

Now, observe what would happen here in the United States should you, this Senate committee, recommend to the Senate that the forthcoming banking and currency law should be patterned after the successful French system and the Senate should adopt your suggestion and secure the approval of the House and the President.

We can start with a gold reserve of $1,250,000,000, the largest pile of gold in any country, six times as large as the gold reserve in England. We simply provide in the law for the transfer to the Federal reserve board the control of the gold now in the National Treasury, amounting to $1,250,000,000. There is $1,100,000,000 of gold against which gold certificates are issued and $150,000,000 of gold that is back of the $346,000,000 of greenbacks. Provide that as rapidly as greenbacks are received by the Federal reserve banks and their branches and received by the United States Treasury and subtreasuries they shall be retired by the Federal reserve board, it to issue in their place an equal amount of Federal reserve notes. And as rapidly as gold certificates are paid in to the Federal reserve

banks and their branches and paid in to the United States Treasury and subtreasuries they shall be retired and in their place shall be issued the legal tender Federal-reserve notes. The central gold reserves in Europe have been built up by issuing legal-tender paper currency in exchange for gold. Further provide that gold from the refineries and from abroad may be deposited with the Federal reserve system at each of the main offices and that this gold shall be purchased and paid for forthwith at the mint price. This would result in making it more profitable to sell to the Federal reserve bank than to deposit the gold in the mints and wait for the minting of the coins. Still another way whereby our gold reserve will be increased will be by saving up the gold coins that flow into the Federal reserve banks and their branches and gathering up the gold coins that flow into the United States Treasury and the subtreasuries. Thus we would possess the largest gold reserve of any nation in the world. We would start out with six times the amount that is held by England to-day.

Next let us consider how an elastic volume of legal-tender bank notes issued by the reserve banks would operate to prevent monetary crises within the United States.

We have seen that in France the way a run on the bank is stopped is for the bank of issue to issue legal-tender bank notes in exchange for the assets of the bank and the trouble is soon over. Then the bank that is in trouble pays its depositors without closing its doors. Most of the money thus issued soons flows back to the bank of issue in payment of the commercial paper as it falls due. There is no closing of bank doors in the face of frightened depositors unless the bank has lost considerable of its capital and the personal liability of the stockholders is insufficient to meet the deficit.

But in France there is no Government inspection of the banks, so that the conditions in France are less favorable for preventing bank runs than with us. Our national banks are inspected by the Federal Government, while the State banks and trust companies are inspected by the State governments. The 12 banks of issue should be at liberty to aid the State banks and trust companies to the utmost that these banks of issue are able, the same as the bank of issue in France aids the banks that are in trouble. Furthermore, our law should provide that the Federal reserve board and the several boards of directors may provide conditions upon which aid to the State banks and trust companies shall be given. But the proposed law that is before you, gentlemen, actually prohibits the 12 banks of issue from aiding the banks that do not part with a considerable portion of their working capital. In other words, part of the banks are to be given special privileges with relation to aid from the banks of issue, whereas that aid ought to be given wherever possible.

That has reference to the State banks and the trust companies. As to the national banks, they are inspected by the same Government that supervises the banks of issue, and this Federal inspection of the national banks can be made as rigid as shall be found beneficial, so that at no time would a national bank be likely to become unable to pay off the depositors should time be given in which to sell its properties. Therefore, in connection with the Federal inspection, there should be a provision that the national banks shall be thor-

oughly safeguarded against the "runs" by depositors by supplying them with sufficient cash to pay off the depositors—pay them off as rapidly as they may ask for their money. Then there would be no "run" on any national bank, for the people would know that their money would be ready for them whenever needed.

This protection to the bankers should be provided, because many of the bursted banks come from "runs" by the depositors. Under the existing system every banker is living over a volcano which may go off any day. The remedy, now that a new currency law is being framed, is to more rigidly examine the banks and then direct that the 12 banks of issue shall stand ready to supply cash to the carefully inspected banks and supply cash in such volume that no national bank shall be obliged to close its doors except by order of the inspection department of the Government.

That means the guaranty of the safety of bank deposits, the protection of the people, as well as the protection of the bankers.

Nothing short of this will do, because the plan is feasible. The small amount of losses that would come should be paid from the profits that are to arise from issuing the paper currency. These profits will belong to the people through their Government, and no better use can be made of a portion of these profits than paying the losses which the inspection department of the Government shall be unable to prevent. These losses ought not to fall on a few of the people, themselves entirely innocent of any negligence or wrong; but the losses should be borne by all, and would not be felt. Besides, a vast amount of losses would be prevented by stopping the "runs" on the national banks. Both the national banks and the business men should be safeguarded against "runs" on the national banks and the locking up of depositors' funds in closed banks.

From every standpoint, therefore, there are sound reasons for the absolute guaranty of the safety of national bank deposits. When losses are met with beyond the bank's capital and the personal liability of the stockholders, let it be paid from the profits which the Federal reserve system shall have made from the issuance of the paper currency. Not 10 per cent of these profits would ever be used in the payment of these losses. Therefore, in the law state that the limit of the Government's liability shall be its share of the net profits from the Federal reserve system. That will effectually meet the objection which heretofore has been made against compelling the banks themselves to pay for the net losses from failed banks. Then the bankers will all be benefited by the system, likewise the people in general, and it would conform with the pledge whereby the progressive Democratic leaders were elected to office. The party platform declares that—

All legislation on banking and currency should have for its purpose the securing of these [banking] accommodations on terms of absolute security to the public and of complete protection from misuse of the power that wealth gives to those who possess it.

That pledge should be kept. It is entirely feasible, as I have shown; but to carry it out will require an addition to the Owen-Glass bill, and a material addition to the House bill.

This places the guaranty of bank deposits in a new light, for the only proper place to prevent "runs" upon the banks will be the Federal reserve system with its elastic volume of legal-tender notes

and a mammoth gold reserve, together with millions of dollars of profits annually received from the interest from paper currency.

Next, as to the moving of crops and other usual demands for money.

To move the crops the Federal reserve banks will issue paper currency in exchange for commercial paper, and the cash which the banks get will be used as reserves on which to issue from four to eight times that amount of bank credit. Then as the demand slackens the paper currency thus issued will quickly be retired by being paid in to the reserve banks to meet the commercial paper as it falls due. Thus the elastic currency will be the means whereby the reserve banks will help to move the crops.

And this same general system will be the means whereby other unusual demands for money will be met. The first of each month there will be a temporary increase in the volume of paper currency, quickly followed by its retirement. Each three months when the interest payments are made and the stock dividends are paid there will be a considerable increase in the volume of paper currency and of bank credits for a time, followed by gradual and prompt retirement.

Reviewing the points that I have just made it is evident that the proposed administration bill if amended so as to drop out the provision for capital stock, and amended so as to provide a legal-tender paper currency would at once result in the largest gold reserve in the world; whereas to use the crippled legal-tender paper currency would result in the retention of gold certificates in the national banks and in various other places which would refuse to give up the gold certificates. In other words, should the crippled legal-tender paper currency be issued as proposed by the bankers and their so-called experts the result might be that our gold reserve could not be built up, and our new system would at once become a failure. In Germany, through the use of a crippled paper currency, the gold standard was temporarly lost in 1907.

Also, I have demonstrated that if the law shall provide for the legal-tender paper currency and reject the idea of a capital stock, then monetary crises can be effectually controlled, the same as in France.

And I have demonstrated that the proposed system would effectually meet the other unusual demands for money, such as moving the crops and providing for disbursements the first of each month and each quarter.

In short, that if we shall adopt the European system of a full legal-tender paper currency for this country the result will be the starting out with a huge gold reserve, and this, in combination with an elastic volume of paper currency would successfully meet monetary crises and provide for other unusual demands for money. There would be no possible use for capital stock in the Federal reserve banks nor any use for any more bank reserves than enough to settle the daily balances in the Federal clearing house.

Logic shows that this is so, and so does the experience of Europe, and there is a third method of proof that I have already presented, namely, that in 1909 the German Government rejected a proposal that 1 or 2 per cent of the deposits of each of the private banks of the country be placed in the bank of issue. That proposal which the

German Government rejected is now being proposed in the bill before this committee.

Thus, there are three methods of proof which demonstrate that capital stock for the 12 banks of issue in this country would be worse than useless.

Gentlemen, this concludes my statement except to point out that I have presented proof for each point, citing where the proof is to be found. The issues discussed have been so clear that I believe you will have no difficulty in arriving at a verdict. While it has been my good fortune to be able to present an abundance of proof for the people's side of the case, I regret and deeply regret, that the bankers' shrewd tactics in their behalf at the expense of truth and manly treatment of this committee should have happened. The bankers, however, are meeting their Waterloo, and are certain to lose every special privilege. The people are back in power and will see to it that every special privilege shall be abolished so that equal opportunities before the law shall prevail. That condition, combined with a stable price level for the coming years, will result in a prosperity for the entire Nation, and one that will be far in excess of anything which we have heretofore experiences.

To our opponents I desire to say that my duty as the people's counsel in this case and "a friend of the court" has compelled me to speak plainly, but I desire to expressly state that I realize that the motives of a misguided "sound money" advocate may be of the highest character. I have not been dealing with motives but with acts—acts of the "sound money" believers, acts that have been injurious to the people.

I also wish to point out that I have freely admitted the high-grade work of certain of the "sound money" advocates; for example, the all-important work for stability that is being done by the professor in Yale University.

Some of the professors in our universities have taken their professional lives in hand by championing the people's cause and have lost their positions, while others have barely remained——

Senator WEEKS (interposing). May I ask the witness to give the names of those who have lost their positions?

Mr. SHIBLEY. I will do that gladly; for years I have been making a special investigation of that subject. Prof. Edward W. Bemis, of Chicago University, was discharged because, as the evidence plainly shows, he was telling the facts about the Chicago Gas Trust. They told Bemis, "You have got to stop that or you will lose your position," but he kept on and he lost his position.

Senator WEEKS. Who told him that?

Mr. SHIBLEY. One of the men in the Chicago Gas Trust.

Prof. John R. Commons, of Syracuse University, was discharged because he voted for Bryan in 1896. He exercised the right of being a man. You know how the president of Brown University was called immoral and discharged because he worked for the restoration of bimetallism.

James Allen Smith, of Marietta College, Ohio, exposed the iniquities that were being committed against the people through contraction of the volume of money, and he was discharged. He now occupies a high position in Washington State University.

Prof. Commons is in Wisconsin University, and Prof. Bemis is going about the country as the people's representative on municipal matters. Other cases might be given. For example, the discharge of President Thomas E. Will, Prof. Frank Parsons, and Prof. Edward W. Bemis, in the Kansas Agricultural College, and Prof. E. A. Ross, from Leland Stanford University.

George Washington, while President of the United States and living in Philadelphia, saw the State University of Pennsylvania taken from the people so that they would not be able to control the teachings therein.

And President Washington worked for a national university; he worked hard for it. The establishment of a national university was perhaps his most ardent wish in the later years of his life, but he could not get a bill reported, so strong was plutocracy at that time under the Federalist régime. And right along up through the next century the universities have been a storm center; and one after another of them have been taken from the people's control. Yale and Harvard were taken from the people less than 50 years ago.

Senator NELSON. Prof. Fisher then is your ideal of the people's friend, from the scientific standpoint?

Mr. SHIBLEY. I have stated that Prof. Fisher is doing invaluable work for the stable price level. You can not estimate the importance to the Nation and to the world of his great work.

The CHAIRMAN. Every member of the committee, I suppose, has read his book, The Purchasing Power of Money.

Senator NELSON. And we heard him here, too, I think.

Mr. SHIBLEY. As I was saying, several of the progressive professors lost their positions. One of those that remained in office was the patriot who last year was elected the people's leader in this Nation. While holding his professorship he actively championed the "short ballot" system as a needed reform for terminating "machine rule." For years he has been president of the National Short Ballot Organization; and in his speeches in the State and the national campaigns he has explained with a clearness and forcefulness, unmatched by anyone else, the intricate and disgraceful system of "machine rule" party government; and now he is leading in the development of a people's rule system of party government and the restoration of competition—the "new freedom."

Another fact which I feel it my duty to state is that the Secretary to the President, to my personal knowledge, while he was a member of the assembly in New Jersey, introduced a bill for the advisory initiative, the aim being that the people of his State should possess the needed machinery for directly expressing their will on public questions. The introduction of that bill and working for it demonstrated its author to be a true-blue patriot.

Gentlemen, I thank you for your courteous attention.

XVII.

Senator NELSON. Professor, I want to ask you one question. Have you called the attention of the President to your plan of having these regional banks operate without capital?

Mr. SHIBLEY. I have been——

Senator NELSON (interposing). I understand he favors this bill.

Mr. SHIBLEY. Why, the bill comes here as his bill, with the stability clause in it.

Senator NELSON. And you think that in that respect it is not right?

Mr. SHIBLEY. I favor the stability clause.

Senator NELSON. No; I mean this thing of requiring the banks to contribute capital to the regional bank.

Mr. SHIBLEY. Oh, that is simply an incident in a great bill.

Senator NELSON. You regard that simply as an incident, then?

Mr. SHIBLEY. Yes. The main thing is that there shall be a unified control of the purchasing power of money in this country, so that the bankers and foreign countries can never control our price level.

Senator NELSON. Now, I wish, Mr. Shibley, you would take this bill and prepare a substitute for it, on the lines of your argument, to carry out your suggestions. Prepare a bill for the use of this committee as you think it ought to be.

Mr. SHIBLEY. Thank you. I have received permission to place in my statement the matter that I have gotten together.

Senator NELSON. You take this bill, and you rewrite it as you think it ought to be.

Mr. SHIBLEY. I shall be very glad to do that.

Senator NELSON. I shall be very glad to have you do it. Put your ideas in concrete, legislative form, so as to express it in legal language, so that if the bill passed in the form you prepare it would be an effective law.

Mr. SHIBLEY. I will gladly take the matter up.

Senator NELSON. Will you do that for the use of the committee?

Mr. SHIBLEY. With pleasure.

Senator NELSON. There is only one point in your argument that bothers me, and that is how these regional reserve banks would get a supply of gold by the simple issuing of legal-tender notes. You say the notes should be the notes of the reserve banks and not the notes of the Government; that they should be legal tender; and upon the mere issue and delivery of those notes your opinion is that an ample supply of gold could be secured?

Mr. SHIBLEY. Exactly; the same way as in Europe; the same proceess. Now, the only thing that is required is to transfer the $1,100,000,000 of gold in the Treasury, against which certificates are issued, into the reserve banks in exchange for another form of gold certificate. The gold is in the banks because people do not want to carry it around; they won't have it, and therefore there will be no difficulty under a properly framed law of getting the transfer of that gold over into another vault.

Senator BRISTOW. You would not issue any more of this legal tender than you had gold?

Mr. SHIBLEY. Not for the gold; exchange it dollar for dollar.

Senator BRISTOW. You would exchange it dollar for dollar; but instead of having it a gold certificate you would have it simply a United States note that was a legal tender for everything and the Government would pay gold for it if it was ever requested?

Mr. SHIBLEY. Yes; a Federal reserve note that is practically a gold certificate.

Senator BRISTOW. Practically a gold certificate?

Mr. SHIBLEY. Yes.

Senator BRISTOW. I can see, Professor, that that might work just as a gold certificate does. It is a gold certificate except that it has a different name and is put out in a different form.

Mr. SHIBLEY. Precisely.

Senator NELSON. But here is a regional bank that comes up with $100,000 of commercial paper, and they say, "Here, we want currency on this; we want your paper currency." Now, the bank would issue to them $100,000 in these legal tender notes and all the bank would get would be that commercial paper. There would be no gold back of that issue.

Mr. SHIBLEY. Let us see just a moment. The bank would at once transfer that commercial paper to the national board in order to get its money, would it not?

Senator NELSON. I do not see how that——

Mr. SHIBLEY (interposing). That is part of the arrangement in the bill, as I understand it. The commercial paper will be held by the Federal agent at the reserve bank, so that it all goes right over——

Senator BRISTOW (interposing). But when the gold supply is exhausted you can not get any more money.

Mr. SHIBLEY. Well, when you have six times the volume of gold that England has it is not likely to be exhausted.

Senator NELSON. Now, follow that up. In the first case you supposed that you got the gold for the notes. You exchanged the notes for the gold. But this is a case where you exchange the notes for the commercial paper?

Mr. SHIBLEY. Yes.

Senator NELSON. Now, where do you get the gold in that case to back up those notes?

Mr. SHIBLEY. The national board will hold that commercial paper a few moments after the transaction has been finished in the regional reserve bank. The commercial paper will be handed over to the Federal agent in charge and he will issue the paper currency, so he will be in charge of the commercial paper plus the gold reserve.

Senator NELSON. But there is no gold reserve back of that paper.

Mr. SHIBLEY. Oh, yes, there is. There will be a large gold reserve in the keeping of the national board.

Senator NELSON. Can there be any more gold in the bank without capital, on your theory, than the legal-tender notes you issue?

Mr. SHIBLEY. Oh, no.

Senator NELSON. Now, you issue, to begin with, legal-tender notes?

Mr. SHIBLEY. Yes.

Senator NELSON. And on those legal-tender notes that you issue, offhand, in the first instance, you assume you get an equal quantity of gold, dollar for dollar. Now, stop right there. The next step is, a member bank comes up with $100,000 of commercial paper and says, "We want $100,000 of your currency; here is our paper." The regional bank gives them the legal-tender currency. And the regional bank or the agent—you can put it that way, if you like—the agent of the national board holds that commercial paper. Where does the gold come from that backs up that legal-tender currency as issued for that commercial paper?

Mr. SHIBLEY. The Federal reserve board has it. This will be shown each week in its statement.

Senator POMERENE (interposing). You are speaking of the reserve banks when you say "banks"——

Mr. SHIBLEY. I am saying that when the Federal reserve board issues its statement each Saturday morning there will appear the volume of gold on hand and the volume of commercial paper, also the amount of paper currency outstanding, and it doubtless will show that the gold reserve will be 60 or 70 per cent of the outstanding paper currency.

Senator NELSON. How do you assume that?

Mr. SHIBLEY. Under the European system that I am proposing the Federal reserve board will at once receive the gold that now is in the Federal Treasury, amounting to $1,250,000,000. This gold would amount to 60 or 70 per cent of the paper currency and gold certificates outstanding——

Senator SHAFROTH (interposing). That is something like the Allings system. Have you read his book?

Mr. SHIBLEY. No; but I would like simply to refer to the weekly reports in the London Economist, showing how each of these foreign banks issues a statement. A sample set of these statements is in our hearings, and I will refer to them—pages 534–537.

Senator SHAFROTH. But the Allings system proposes the transfer of this $1,100,000,000 of gold back of the gold certificates over into the redemption fund bodily, and the cancellation of the gold certificates, and then the issue of full legal tender on that until they needed some more full legal tender, and then the issues in the future would decrease relatively the quantity of reserve until it would get down, as he said, to 70 per cent, and maybe lower than that. Is that your view also?

Mr. SHIBLEY. I do not think the Government has the right to change its contract with the people when it issued a gold certificate, and arbitrarily issue a legal-tender bank paper currency in its place.

Senator SHAFROTH. He contemplated that as these gold certificates went into the Treasury gold would be placed from the warehouse room over to the redemption fund, and that, therefore, when it was all done—of course it would not be done quickly—there would be outstanding some quantity of full legal-tender money to take the place of the gold certificates. Then as they issue money this gold reserve would relatively diminish as each issue occurred; but it would still be ample.

Mr. SHIBLEY. Precisely; that is my idea, and that is the system in Europe.

Senator NELSON. You do not believe, then, you have a right to compel these holders of gold certificates to surrender them?

Mr. SHIBLEY. No, sir.

Senator NELSON. For Federal reserve notes, without their consent?

Mr. SHIBLEY. Oh, no; not at all.

Senator NELSON. Then these holders of gold certificates absolutely control over a billion dollars?

Mr. SHIBLEY. Yes.

Senator NELSON. Now, would the residue of the gold outside of that in the country be sufficient for our currency?

Mr. SHIBLEY. It would not.

Senator NELSON. Would you not need the gold that the gold certificates stand for?

Mr. SHIBLEY. Yes.

Senator NELSON. How would you get that gold?

Mr. SHIBLEY. Why the self-interest of the people who hold the gold certificates would be to take this other form of paper currency. We should provide in the law that the national banks shall keep as reserves the legal tender paper currency, the same as in Europe.

Senator SHAFROTH. That very requirement that the national banks shall keep the full legal-tender money would make them shun gold and hold legal-tender notes——

Mr. SHIBLEY (interposing). Exactly. Then, by providing in the law that the gold as it comes into the country shall go into the Federal reserve system, as in the Bank of England, will make it still more easy.

Senator SHAFROTH. Mr. Shibley, I wish to ask you some things that have been bothering me. I have been in communication with you for something like 18 years and have talked with you about the price level any number of times, and I have got some propositions here presented by Mr. Berry in his book that somewhat puzzle me, and I want you to explain them.

Mr. SHIBLEY. I will do the best I can.

Senator SHAFROTH. Here is the first one: He says that gold has not appreciated in purchasing power. He says that while the means of extracting gold have been cheapening and that gold has been increasing in the quantity produced, yet the amount that is added to the gold stock each year is a very small per cent. And he says that the cost of manufacture of articles out of copper, iron, zinc, lead, and other things has diminished more than the cost of producing gold and that the increase of those articles has been greater in proportion than the increase in the output of gold, and that, therefore, while there has been a rise in prices he attributes it to other things.

Now, have you looked into the question as to whether the cheapening of the process of extracting gold has been greater than the cheapening of the process of getting out iron ore, copper, lead, and zinc and coal, and a great many other things?

Mr. SHIBLEY. Yes.

Senator SHAFROTH. Now, what is your view?

Mr. SHIBLEY. What he states about the lessening cost of production in certain lines is a fact, but he has failed to notice that in agricultural products there has been an increasing cost.

Senator SHAFROTH. Here is his answer to that: He says that the increase in the population of cities from 1900 to 1910 has been 22 per cent, according to the United States census taken in 1910, and that the increase in the population in the country has been only 2 per cent—practically stationary. He says the city population are the consumers and the country population the producers, and that as the producers have stood still and the consumers have increased that makes a greater demand upon practically the same quantity of products, and therefore there would be a rise——

Mr. SHIBLEY (interposing). Naturally.

Senator SHAFROTH. And therefore, he says, it is not attributable to gold but is attributable to this condition of affairs——

Mr. SHIBLEY (interposing). That is true as to those particular prices, but we have been trying to distinguish right along between the price level and the price of a particular article, and that is all

allowed for in the index number of average prices. In our Government's publication, issued by the Department of Labor, there is, on page 15, a chart showing the increasing cost of agricultural products and other raw materials as compared with manufactures. Now, it shows—and this chart has been included in our record—that from 1897 the prices of raw materials have risen more than manufactured commodities by something like 30 points, showing how, in the progress of civilization, manufactured articles fall in price as compared with farm products and other raw materials.

Senator SHAFROTH. I can see, of course, that there is a difference between these lines, but he accounts for both the manufactured products and farm products by saying that the cheapening of the processes of manufacture has been going on more than the cheapening of processes of extracting gold, and that for that reason the higher prices are not on account of the quantity of gold, but it is on account of the fact that this cheapening process is going on with respect to general manufactured goods. Now, when he comes to agricultural products, he says that is on account of the increase of city population or consumers with a stationary number of people in the country who are producers, and that a greater demand upon the same quantity of products will produce, of course, a higher price.

Mr. SHIBLEY. I grant that; that is unquestionably true; but he is referring to the price of farm products——

Senator SHAFROTH (interposing). He used very nearly everything. and make the explanation as to manufactured products just as I have said.

Mr. SHIBLEY. But if he will put them all together and give each its due proportion he will find that the Government's index number is along right lines, agreed to by every economic association.

Senator SHAFROTH. But he says that the rise in prices is due to other things than the increased production of gold.

Mr. SHIBLEY. The circulation per capita in this country has increased 62 per cent in 17 years. That is a tremendous increase.

Senator SHAFROTH. Yes; but here; here is an editorial that came to me—and I referred to it yesterday—by Alfred F. White, which appears in the Banking Law Journal of September, 1913. I want to read this into the record and get your opinion of it:

EUROPE NEEDS GOLD.

Europe needs gold and buys it at a premium. Imports of gold to Europe are necessary to recoup the waste of capital from the Balkan wars and the devastation of the agricultural countries which furnish so much food to continental countries. Egyptian reserves have been depleted by demands for capital in the Far East and must have more gold. India, favored by great balances of trade, has within two years purchased over $250,000,000 of gold besides silver, and as much more within the next two years will have to go into the "sink hole" of precious metals. The banks of France, England, Austria, and Russia have, by reducing accommodations to the borrowing countries, recouped to some extent gold reserves; that of Germany labors under demands for great military expenditures to be undertaken. The president of the Reichsbank, who warned his shareholders last winter that gold reserves must be increased approximately $175,000,000 has not yet obtained his desires. All of "the nations are tugging at the blanket of gold," and there appears little prospect of easy money for borrowing countries until late in 1914. To the urgent needs of Europe for at least $500,000,000 gold the soft-money men in Congress appear to be willing to reopen the endless chain of redemption in gold of more than half a billion treasury notes, and furnish without premium the gold to Europe which this country in emergency has always paid a high rate to obtain.

Now, relative to that question as to the demand of the world for gold, are those, in your judgment, facts?

Mr. SHIBLEY. Not as he has stated them. He has confounded the need for actual capital with the use of gold as a measure of value. Now, the Balkan War has consumed an immense amount of actual capital, and other capital is needed to replace it. A mere medium of exchange like money will not answer.

Senator SHAFROTH. Do you think this demand of India for $250,000,000 of gold has existed for two years?

Mr. SHIBLEY. I presume that those figures are correct.

Senator SHAFROTH. And that they are likely to be making that demand for the next two years?

Mr. SHIBLEY. We should all be thankful that India has taken that much gold, so that it has not remained in Europe and in our own country to raise the price level still higher.

Senator SHAFROTH. That is on the theory that gold has raised the price level?

Mr. SHIBLEY. Oh, that is unquestionably true. Every economist now accepts that as a fact.

Senator SHAFROTH. Mr. Berry, to my mind, has produced some very strong facts to the contrary. He says that the trusts are chargeable with the increased price of commodities and articles.

Mr. SHIBLEY. I reply by pointing to the fact that in England, where there are practically no trusts, the price level has gone up about 30 per cent, whereas here it has gone up about 42 per cent. Possibly this difference may all be due to difference in the way the index numbers are constructed.

Senator SHAFROTH. Well, his answer to that is that there are combinations and there are efforts to get increased prices in Europe as well as in America.

Mr. SHIBLEY. It is recognized that England has practically no trust prices.

Senator SHAFROTH. I do not know. Of course, the trusts, being exporters to a large extent, would to a considerable degree affect even the prices of manufactured goods in Europe and of the European countries. But you do not think there is much in that?

Mr. SHIBLEY. Absolutely nothing.

Senator SHAFROTH. Then he also says that the tariff has been a factor in elevating prices in this country, and he associates that with the trusts, by reason of which they have been able to take advantage of what might come from Europe and thereby raise the prices of a great many things. What do you think of that?

Mr. SHIBLEY. In proportion as the trusts have raised prices during the era of a rising-price level, it simply means that some other prices, as compared with those, have not risen as much or not at all, so that the great sea level of prices has not been affected by trust prices. That is, particular prices do not affect the great average or price level. Should a great mountain of gold be discovered and be mined and minted then the whole price level of the gold-standard world would go up and trust prices would go up a little higher than the average.

Senator SHAFROTH. Here is another proposition that he states that I do not know whether you can answer or not, but it is very strong to my mind. He says that outside of movable things there has been no increase of prices. He says, you take real estate, stocks,

investments, things which the increase of that which measures everything—gold—would probably affect and ought to affect, and they ought to show its purchasing power better than the rise and fall of commodities. He says that permanent investments are less to-day than they were 10 years ago, or less to-day than they were in 1907, by considerable.

Mr. SHIBLEY. Now, just notice the premises in his statement. He says that the price of real estate has gone down; that it has not gone up sufficiently high; that the price of stocks has not gone up sufficiently high. Now, the index number of prices is as to commodities——

Senator SHAFROTH (interposing). I know; and he says that commodities are not a fair test on account of these various conditions he describes. And he says the real test as to whether gold is increasing in purchasing power or decreasing in purchasing power is really based on what the investor has to deal with, and when there is no rise in those things it indicates that there is not too much gold.

Mr. SHIBLEY. Now, you see we have gotten where we can see the point of view he has in mind. He says, from the point of view of the investor. It is recognized that in constructing index numbers there are various viewpoints, and the Government viewpoint in constructing its index number has been to construct a standard for deferred payments; that is, provide a just standard as between debtors and creditors, and for all people who come into contact with prices fixed by law and by custom, such as 5-cent fares on street railways. In other words, we should keep our average of prices somewhat stable, so that men and women can do business.

Senator SHAFROTH. Yes; but he says railroads are one of the very things that have not increased in price. He says the stocks of the very best railroads in the entire United States show a decline for the last 6 or 7 or maybe 10 years.

Mr. SHIBLEY. That is an excellent illustration to show that there is a fallacy in his reasoning——

Senator SHAFROTH (interposing). I do not know. His article that I refer to more particularly is one that is in favor of the gold standard and against the substitution of a standard that is a measured price level. There are a number of people in the United States, you know, that advocate that neither gold nor silver ought to be coined; that there is no such thing as intrinsic value, and that there should be no such thing as coining anything. They say it should be regulated by the price level and the dollar should be issued on that, and the quantity issued should be contracted to make that price level stable. He says, in answer to that, that it is absurd that a thing of that kind could not exist because mechanical devices have made a number of things ridiculously low in price. Another party suggests that the kilowatt hour is the thing that ought to control. Now, his theory is that gold, being universally accepted by every nation in the world, is as near a perfect standard as you can get. He says that to abandon gold as a universal standard would be to put nations in a chaotic condition where transfers could not be made.

Mr. SHIBLEY. Absolutely; but in his argument the matter of individual prices has been thrown right in with the treatment of the price level.

Senator NELSON. Your figures there—those tables—are utterly of no value at all. Take the matter of agricultural products. It is as the Senator has just stated, and we know it who live in the great agricultural States of the West. The increase in prices has arisen from the fact that the increase in the number of consumers has been faster than the increase in the number of producers. The army of consumers has been increasing and agriculture, you might say, has stood almost still. And we have no better evidence of that—take cattle, for instance. Cattle were never so high in this country, in my recollection, as they are to-day; and what are the causes? The causes are that the range cattle, as we call them out West, have ceased to be a great factor because most of the range country has been occupied by homestead settlers and there is a scarcity of cattle. They are importing to-day beef in England and even in this country from Argentina. Now, if you base your figures on this kind of statistics you will have something to stand upon; but here you group a lot of figures—it is simply like taking eggs as worth so much for a number of years and potatoes as worth so much, and you group the two things and say the level of prices between eggs and potatoes has been so much and it has been effected by the gold standard.

Mr. SHIBLEY. Now, right in that connection, let me say that unquestionably the difference between the price of cattle and of manufactures is as you have stated. That is one of the factors.

Senator NELSON. That is the principal factor. This other factor is only a sideshow.

Mr. SHIBLEY. You admit there is a factor, however, in the volume of money.

Senator NELSON. The same currency I bought the bushel of potatoes with in my home last year—we had the same currency then—and I bought for 20 cents a bushel at my home town last fall what I now have to pay 45 cents a bushel for with the very same currency. What have you to say to that?

Mr. SHIBLEY. A short crop in those important articles. But that does not affect the point I am speaking about—the great sea level of prices. Suppose we should discover a mountain of gold, and get 10 times as much gold in circulation, would you still have the same price for cattle?

Senator NELSON. The relative price would be high.

Mr. SHIBLEY. That is the very point I am making.

Senator NELSON. Your figures are of no earthly value. You might as well take one of the calendars they had 2,000 years ago and tender those dates.

Mr. SHIBLEY. I am afraid you have not looked at them carefully.

Senator NELSON. I do not intend to look at them, because they go against my own sense and good judgment, no more than I intend to read Prof. Fisher's book. [Laughter.]

Mr. SHIBLEY. I just wish——

Senator NELSON. Don't you try to fool us with such things.

Mr. SHIBLEY. I just wish to state in the record the prices of farm products go into the general index number and are given a proper proportion.

Senator NELSON. Oh, index numbers! Old Mother Hubbard! [Laughter.]

Senator BRISTOW. I was interested in this national clearing house you referred to. You regard these Federal reserve banks, practically, as clearing houses for all the banking houses in their region?

Mr. SHIBLEY. Yes; that is what they should be.

Senator BRISTOW. Would it not be better to have a clearing house, one national clearing house, to be located here in Washington under the supervision of this board, and let it have branches in every section of the country where they are needed?

Mr. SHIBLEY. That is practically what is provided for in this bill—12 central institutions, 12 regional institutions with a supervisory board.

Senator BRISTOW. Why not have one institution, a national institution, with a supervisory board here in Washington, and let them have branches in every section of the country, and you would have a more simple organization?

Mr. SHIBLEY. How would that be more simple?

Senator BRISTOW. You have 12 clearing houses in the bill.

Mr. SHIBLEY. I see your point. I prefer the 12 clearing houses formed into a national organization because it is a Federal system with home rule, rather than a central system which says to a community, "You go and do as we say."

Senator BRISTOW. Why is not that the same as we have now?

Mr. SHIBLEY. Because these 12 boards of the regional institutions are to be run by the citizens of the several communities, and they are going to have important things to work out for their communities.

Senator BRISTOW. They simply advise upon the commercial paper that is to be accepted.

Mr. SHIBLEY. That is one thing.

Senator BRISTOW. There is nothing else they do.

Mr. SHIBLEY. They have to determine each week what shall be the bank rate.

Senator BRISTOW. That is administered by the Federal board here in Washington.

Mr. SHIBLEY. This Federal board simply has a veto power. The initiative comes from the community.

Senator BRISTOW. You think the banking rate ought to be different in different communities?

Mr. SHIBLEY. That should be worked out by providing each community with its own board of directors, and not leave it to a central board.

Senator BRISTOW. You would establish in each community—take the communities like we have out in the Northwest. You would locate one of these clearing houses at St. Paul, which would be an entity by itself. The area it will have to cover, to get a sufficient amount of patronage, according to this bill, will be 600 miles wide and 1,700 miles long. It is utterly impracticable for any one concern to be advised upon the conditions in a community of that size.

Mr. SHIBLEY. How much worse would it be then to have a central institution to pass on the entire United States?

Senator BRISTOW. I say to have a central institution with branches where they were needed.

Mr. SHIBLEY. The central institution would control the communities.

Senator BRISTOW. No more than they are going to do now.

Mr. SHIBLEY. This system is going to have 12 boards.

Senator BRISTOW. But under the dominating influence of the board here in Washington.

Mr. SHIBLEY. It will only possess a veto power as to some things. It will not possess a veto power as to some of the important things, such as the determining as to what paper shall be accepted.

Senator BRISTOW. Oh, this board here in Washington is absolutely to be at the head of these regional boards. I do not know anything the regional boards can do except by permission of the national board.

Mr. SHIBLEY. But pass upon the commercial paper.

Senator BRISTOW. Except as to discounts.

Mr. SHIBLEY. That is important; that is all-important.

Senator BRISTOW. A branch of this Federal clearing house might be located at Wichita, Kans. That is a reserve city. It could pass on them just as well as the regional bank which might be located at St. Louis could, and a great deal better, because they are better acquainted with the community there.

Mr. SHIBLEY. Who would pass on it?

Senator BRISTOW. Who would pass on it?

Mr. SHIBLEY. The Wichita branch of the central board would pass on it and not a board representing the people of the community. That is the difference between a Federal system and a central system. We should have boards in control representing the people of each community, nominated by them, and that is really a home-rule system. This country is too large to have one central authority for our banking world.

Senator McLEAN. Suppose the central reserve board orders the regional reserve bank in New England to transfer $10,000,000 of money to the regional bank in California?

Mr. SHIBLEY. Yes.

Senator McLEAN. Do you think that that would tend to harmony and conservation in local reserves?

Mr. SHIBLEY. There is a national power that should be in the National Government, and that is one of them.

Senator McLEAN. You say you think these 12 reserve associations would tend to promote harmony and the conservation of the local reserves. Suppose they have conserved their reserves in the New England region, say, and along comes the reserve board and tells them to transport $10,000,000 of that credit out to a San Francisco bank; do you think that would tend to promote harmony in these associations?

Mr. SHIBLEY. But we started in by asking what it is that will benefit the community, and now you are asking whether a certain course will promote harmony.

Senator McLEAN. You idea is that this will promote harmony?

Mr. SHIBLEY. I say that for the promotion of public welfare we ought to have home rule as far as is practicable.

Senator McLEAN. Do you consider it home rule to have this board over here in Washington go to New England and order $10,000,000 of credit transferred to the Pacific coast against its wishes?

Mr. SHIBLEY. In the federal system there has to be a national authority over some things.

Senator McLEAN. That is not an answer to the question. You stated that to have a local institution would promote harmony in this arrangement.

Mr. SHIBLEY. I say that while it may permit home rule in some things, there has to be a national authority over other things.

Senator McLEAN. You said it would promote local harmony in the institution.

Mr. SHIBLEY. No; I am speaking about the division of authority between the Nation and the community—home rule.

Senator BRISTOW. That would not be home rule.

Mr. SHIBLEY. No; because that bridges over to where the national authority should act.

Senator BRISTOW. Then the question of home rule breaks down under this Federal reserve bank.

Mr. SHIBLEY. No; in the Federal reserve system there is a place for home rule and a place for nationanl authority, and the line must be drawn somewhere.

Senator BRISTOW. Why could it not be adjusted just as well with one central clearing house, with branches for each community? They would be in more intimate relation than the 12 regions would.

Mr. SHIBLEY. Because you would provide that the entire control shall be in the national authority and you abolish home rule entirely.

Senator BRISTOW. Suppose the law should require the Federal reserve agencies to discount all the paper of any bank if that bank is a reputable concern, to the extent that its assets are good?

Mr. SHIBLEY. Just what is the point?

Senator BRISTOW. I say, suppose this law that creates the national clearing-house association directs the various branches, when established, to perform the same functions that are required of these regional banks.

Mr. SHIBLEY. Then home rule on certain questions would be lost.

Senator BRISTOW. On what questions?

Mr. SHIBLEY. The question of passing on the paper, for example.

Senator BRISTOW. I do not lose it; I leave it right there; I put it right there by law. That is a question for them to determine.

Mr. SHIBLEY. Then you put in the Federal system, just as it is in the bill.

Senator NELSON. Would it not be better to submit those matters to a referendum?

Mr. SHIBLEY. Perhaps, under your political ideals.

Senator HITCHCOCK. I would like to inquire what puts the Senator from Minnesota in such a jocular frame of mind this morning. [Laughter.]

Senator NELSON. I did not hear your reply to the question of Senator McLean, as to how you thought home rule and local interests would be promoted by requiring New England, on an order from Washington, to transfer the $10,000,000 of their local funds to a far-distant point of the country.

Mr. SHIBLEY. I stated that in every Federal system there is a line between national authority and home rule. This matter of transferring funds comes under the national head in order to make the system strong.

Senator NELSON. Do you know of any country in the world where one part of the country is required to transfer to another part of the country its own resources and its own savings?

Mr. SHIBLEY. Yes.

Senator NELSON. Where?

Mr. SHIBLEY. Europe has central banks and branch banks, and there the power to transfer funds from one part of the country to the other in times of monetary crises is in the central authority, and here in the United States some people are advocating a central authority.

Senator BRISTOW. Then you advocate a branch-bank proposition?

Mr. SHIBLEY. Quite the contrary.

Senator BRISTOW. I understood you to defend and advocate the proposition that the Federal board should have the right to order one reserve bank to transfer $10,000,000 of the savings of the people in one locality to another part of the country for their use.

Mr. SHIBLEY. The regional reserve banks will not have the savings of the people in their possession if the system is installed that I am proposing, for it is not to have a capital stock and no more of the bank resurves than enough to settle the daily balances.

Senator BRISTOW. And the reserves of the banks will constitute the savings they have in that locality.

Mr. SHIBLEY. There is no system in the world but the one of the people in this country, where they attempt to get control of these banks of issue.

Senator BRISTOW. Let me see if these reserves do not constitute the savings of the people in that locality.

Mr. SHIBLEY. Certainly they constitute the savings of the people, but they are not to be put in the banks of issue.

Senator BRISTOW. I am eliminating now capital stock and referring only to funds of the reserve banks. Now, taking a case, for instance, in which the reserve bank at Chicago is ordered to transfer to the reserve bank out in San Francisco $10,000,000 of funds: What do those funds consist of if they do not consist of the deposits of the banks in that Chicago district left with the reserve bank located in Chicago?

Mr. SHIBLEY. They would not consist of that.

Senator BRISTOW. What would they consist of?

Mr. SHIBLEY. They would consist of paper currency, because these are banks of issue, and they are going to issue currency for the unusual demands.

Senator BRISTOW. If the Chicago bank is ordered to transfer funds to San Francisco, your point is that it does not transfer its actual resources, but only procures from the Government United States notes, which it will then send to San Francisco?

Mr. SHIBLEY. That is right; and then this Chicago reserve bank will take the commercial paper and deposit that with the Federal reserve board.

Senator BRISTOW. That is to say, the Chicago reserve bank would borrow $10,000,000 in paper currency from the United States and loan it to San Francisco?

Mr. SHIBLEY. Exactly, and make money by the transaction, and who would have any fault to find with it?

Senator BRISTOW. Your idea is that the law should provide that that Chicago reserve bank, we will say, may be required to borrow $10,000,000 of the United States and lend it to San Francisco.

Mr. SHIBLEY. Yes; should the Federal reserve board decide to handle a monetary crisis that way.

Senator BRISTOW. That is worse than the other.

Mr. SHIBLEY. The large amount of loans from San Francisco would thereby be divided between several banks of issue. The only question is as to whether all of the loans from San Francisco should be made with the local bank of issue or be divided up between several banks of issue.

Senator NELSON. Senator, you overlook the fact that this currency is legal-tender currency, not issued by the Government but issued by the regional banks, and you overlooked the fact how easy it would be for those regional banks to issue $10,000,000 in legal-tender money and ship it to San Francisco. It would not be difficult at all.

Mr. SHIBLEY. Just so.

Senator REED. Do they put anything up in the bank for it?

Mr. SHIBLEY. Oh, yes; commercial paper, dollar for dollar, and the member bank will indorse it; also the reserve bank.

Senator REED. If the regional bank in Chicago took $10,000,000 of the notes it had in its possession, those notes would have been received from member banks, would they not?

Mr. SHIBLEY. No; my proposal is that the member banks shall *not* deposit any reserves except enough to settle their daily balances. Banks in trouble and wishing to borrow money would offer to rediscount their commercial paper and would be given paper currency.

Senator REED. I understand. The currency issued is backed by promissory notes and bills of exchange, etc.

Mr. SHIBLEY. Yes; together with the gold reserve and the indorsement of member banks and the indorsement of the banks of issue.

Senator REED. Where do they get the bills of exchange?

Mr. SHIBLEY. From the merchants.

Senator REED. Those bills of exchange are obligations of the local merchants, we will say, of the city of Chicago, in this illustration.

Mr. SHIBLEY. Yes.

Senator REED. They are the credit of those merchants, and you propose to take the credit of the merchants in the city of Chicago and employ it to get money to be used by the merchants in the city of San Francisco. That is where you get it, isn't it?

Mr. SHIBLEY. No; I did not get your meaning a moment ago. My proposal is that the merchants of San Francisco shall put up their promissory notes.

Senator REED. They put up their notes and you exchange the security?

Mr. SHIBLEY. The merchants of Chicago are not going to put up securities.

Senator REED. You mean the merchants of San Francisco put up their notes and send them to the regional bank in Chicago, and then the regional bank in Chicago issues paper and sends it to them?

Mr. SHIBLEY. Yes; if it should be deemed by the national board that that would be desirable.

Senator REED. Why could not they do it through their own regional bank, as long as they have unlimited power of the printing press and the capacity of men to work 8 hours in shifts, to run 24 hours—why could they not do it right through that bank if they have the security?

Mr. SHIBLEY. They probably would, just the same as the Bank of France issued something like 160,000,000 francs to one bank, and that bank never closed its doors, and in a short time that money was all retired.

Senator REED. Would not that be the right way to do it? If the merchants of San Francisco needed this money and had the securities, to issue the money right there from that bank, under your plan, instead of sending those securities on to New York or Chicago or some other place and having them issue the credit? Because, after all, all that is back of this money are the credits deposited and the faith and credit of the Government of the United States.

Mr. SHIBLEY. Plus the indorsement of the bank of issue; also the indorsements of the banks that get the paper currency; and there is the gold reserve.

Senator REED. Of course the gold reserve would exist in either case.

Senator McLEAN. But he has shown that it is going to be eliminated in San Francisco before they get the notes.

Mr. SHIBLEY. Not so; because the gold reserve of the entire country is to be a central reserve under my plan.

Senator REED. Mr. Chairman [Senator Hitchcock], I want to ask the indulgence of the committee for a few moments, because I will have to leave to attend to some work which will not wait, and I would like to ask the witness a few questions out of order in regard to some points that were not developed.

Senator HITCHCOCK. The Senate meets at 12 o'clock, and I think we had better take a recess until half past 2 and then hear Mr. Fowler. He has come here with the expectation of going on this afternoon. Mr. Shibley, you will be in town and could come next week?

Mr. SHIBLEY. Yes.

Senator NELSON. Before you come before us, you get up that bill of yours—you get up your substitute bill.

Mr. SHIBLEY. I shall be glad to.

Senator REED. Before you leave, I wish to say that what I wish to inquire about here is with reference to the genesis of this bill to which you referred yesterday. I want you, if you will, to come prepared to tell us all about how this bill originated and give us the facts, as far as you can, to substantiate your conclusions.

Mr. SHIBLEY. I wish to say that my authorities and quotations are all in the record with the pages given to the hearings and to the different sources of my authorities.

Senator HITCHCOCK. I wish you would be prepared just to lay that subject before us when you come back, because I am very much interested in that phase of the matter.

Senator SHAFROTH. Mr. Shibley, in regard to your paper, I think it is a very able one; but I should like, if you have the time, for you to read a few chapters in the book called Our Economic Troubles, by William H. Berry, and try to answer some of those objections which I have read, because I regard that book of Mr. Berry's as one of the best works ever written.

Mr. SHIBLEY. I shall do so.

(The chairman presented the following document, with the request that it be placed in the record at this point.)

PLANKS OF DEMOCRATIC AND REPUBLICAN PLATFORMS ON BANKING AND CURRENCY SINCE 1896.

1896.

Democratic.

INTEREST-BEARING BONDS.

We are opposed to the issuing of interest-bearing bonds of the United States in time of peace, and condemn the trafficking with banking syndicates, which, in exchange for bonds and at an enormous profit to themselves, supply the Federal Treasury with gold to maintain the policy of gold monometallism.

AGAINST NATIONAL BANKS.

Congress alone has the power to coin and issue money, and President Jackson declared that this power could not be delegated to corporations or individuals. We therefore denounce the issuance of notes intended to circulate as money by national banks as in derogation of the Constitution, and we demand that all paper which is made a legal tender for public and private debts, or which is receivable for dues to the United States, shall be issued by the Government of the United States, and shall be redeemable in coin.

Republican.

FINANCE.

The Republican Party is unreservedly for sound money. It caused the enactment of the law providing for the resumption of specie payments in 1879; since then every dollar has been as good as gold.

We are unalterably opposed to every measure calculated to debase our currency or impair the credit of our country. We are therefore opposed to the free coinage of silver except by international agreement with the leading commercial nations of the world, which we pledge ourselves to promote, and until such agreement can be obtained the existing gold standard must be preserved. All our silver and paper currency must be maintained at parity with gold, and we favor all measures designed to maintain inviolably the obligations of the United States of all our money, whether coin or paper, at the present standard, the standard of the most enlightened nations of the earth.

1900.

Democratic.

THE CURRENCY BILL DENOUNCED.

We denounce the currency bill enacted at the last session of Congress as a step forward in the Republican policy which aims to discredit the sovereign right of the National Government to issue all money, whether coin or paper, and to bestow upon national banks the power to issue and control the volume of paper money for their own benefit. A permanent national-bank currency, secured by Government bonds, must have a permanent debt to rest upon, and if the bank currency is to increase the debt must also increase. The Republican currency scheme is therefore a scheme for fastening upon the taxpayers a perpetual and growing debt.

We are opposed to this private corporation paper circulated as money but without legal-tender qualities, and demand the retirement of the national-bank notes as fast as Government paper or silver certificates can be substituted for them.

Republican.

FREE COINAGE OF SILVER OPPOSED.

We declare our steadfast opposition to the free and unlimited coinage of silver. No measure to that end could be considered which was without the support of the leading commercial countries of the world. However firmly Republican legislation may seem to have secured the country against the peril of base and discredited currency, the election of a Democratic President could not fail to impair the country's credit and to bring once more into question the intention of the American people to maintain upon the gold standard the parity of their money circulation. The Democratic Party must be convinced that the American people will never tolerate the Chicago platform.

1904

THE GOLD STANDARD MUST BE UPHELD.

We believe it to be the duty of the Republican Party to uphold the gold standard and the integrity and value of our national currency. The maintenance of the gold standard, established by the Republican Party, can not safely be committed to the Democratic Party, which resisted its adoption, and has never given any proof since that time of belief in it or fidelity to it.

1908.

BANKING.

The panic of 1907, coming without any legitimate excuse, when the Republican Party had for a decade been in complete control of the Federal Government, furnishes additional proof that it is either unwilling or incompetent to protect the interests of the general public. It has so linked the country to Wall Street that the sins of the speculators are visited upon the whole people. While refusing to rescue the wealth producers from spoliation at the hands of the stock gamblers and speculators in farm products, it has deposited Treasury funds, without interest and without competition, in favorite banks. It has used an emergency for which it is largely responsible to force through Congress a bill changing the basis of bank currency and inviting market manipulation, and has failed to give to the 15,000,000 depositors of the country protection in their savings.

We believe that in so far as the needs of commerce require an emergency currency, such currency should be issued and controlled by the Federal Government and loaned on adequate security to national and State banks. We pledge ourselves to legislation under which the national banks shall be required to establish a guaranty fund for the prompt payment of the depositors of any insolvent national bank, under an equitable system which should be available to all State banking institutions wishing to use it.

We favor a postal savings bank if the guaranteed bank can not be secured, and believe that it should be so constituted as to keep the deposited money in the communities where the depositors live. But we condemn the policy of the Republican Party in proposing postal savings banks under a plan of conduct by which they will

We approve the emergency measure adopted by the Government during the recent financial disturbance, and especially commend the passage by Congress of the law designed to protect the country from a repetition of such a stringency. The Republican Party is committed to the development of a permanent currency system responding to our greater needs and the appointment of a national monetary commission by the present Congress which will impartially investigate all the proposed methods and insure the early realization of this purpose.

The present currency laws have fully justified their adoption, but an expanding commerce, a marvelous growth in wealth and population, multiplying the centers of distribution, increasing the demand for the movement of crops in the West and South, and entailing periodic changes in the monetary condition, disclose the need of a more elastic and adaptable system. Such a system must meet the requirements of agriculturists, manufacturers, merchants, and business men in general; must be automatic in operation, minimizing the fluctuations in the interest rates; and all must be in harmony with the Republican doctrine, which insists that every dollar shall be based upon and as good as gold.

POSTAL SAVINGS.

We favor the establishment of a postal savings bank system for the convenience of the people and the encouragement of thrift.

aggregate the deposits of the rural communities and deposit the same while under Government charge in the banks of Wall Street, thus depleting the circulating medium of the producing regions and unjustly favoring the speculative markets.

1912.

BANKING LEGISLATION.

We oppose the so-called Aldrich bill or the establishment of a central bank, and we believe the people of the country will be largely freed from panics and consequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or dominion by what is known as the Money Trust.

Banks exist for the accommodation of the public and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of the power that wealth gives to those who possess it.

We condemn the present methods of depositing Government funds in a few favored banks, largely situated in or controlled by Wall Street, in return for political favors, and we pledge our party to provide by law for their deposit by competitive bidding in the banking institutions of the country, national and State, without discrimination as to locality, upon approved securities and subject to call by the Government.

RURAL CREDITS.

Of equal importance with the question of currency reform is the question of rural credits or agricultural finance. Therefore we recommend that an investigation of agricultural credit societies in foreign countries be made, so that it may be ascertained whether a system of rural credits may be devised suitable to conditions in the United States; and we also favor legislation permitting national banks to loan a reasonable proportion of their funds on real estate security.

We recognize the value of vocational education and urge Federal appropriations for such training and extension teaching in agriculture in cooperation with the several States.

BANKING AND CURRENCY.

The Republican Party has always stood for a sound currency and safe banking methods. It is responsible for the resumption of specie payment and for the establishment of the gold standard. It is committed to the progressive development of our banking and currency system. Our banking arrangements to-day need further revision to meet the requirements of current conditions. We need measures which will prevent the recurrence of money panics and financial disturbances and which will promote the prosperity of business and the welfare of labor by producing constant employment. We need better currency facilities for the movement of crops in the West and South. We need banking arrangements under American auspices for the encouragement and better conduct of our foreign trade. In attaining these ends the independence of individual banks, whether organized under national or State charters, must be carefully protected, and our banking and currency system must be safeguarded from any possibility of domination by sectional, financial, or political interests.

It is of great importance to the social and economic welfare of this country that its farmers have facilities for borrowing easily and cheaply the money they need to increase the productivity of their land. It is as important that financial machinery be provided to supply the demand of farmers for credit as it is that the banking and currency systems be reformed in the interest of general business. Therefore we recommend and urge an authoritative investigation of agricultural credit societies and corporations in other countries and the passage of State and Federal laws for the establishment and capable supervision of organizations having for another purpose the loaning of funds to farmers.

(Thereupon, at 11.55 o'clock a. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

The CHAIRMAN. We are ready to hear you now, Mr. Fowler.

STATEMENT OF HON. CHARLES N. FOWLER, OF ELIZABETH, N. J.

Mr. FOWLER. Mr. Chairman, in order to clearly define and impress upon this committee my impressions of the bill now pending, I am led to state the principles which I think should prevail and buttress them with historical facts.

The credit system of the United States is a most complicated and delicate organism and legislation should, if possible, be evolutionary and in harmony with its natural development, and not in direct violation of all our experience and established practices, but more especially our legislation should not be in direct violation of economic law.

Recently I received a letter from a Democratic Member of the House of Representatives which contained this language:

> The dense ignorance of the Members of this House upon this question is simply appalling.

This sentence perfectly describes the mental condition of the country upon this question to-day. The people, bankers as well as business men, know just as little about the fundamental priciples, the A B C of the question, as the country knew about the standard of value in 1896. It took a campaign of education to learn that lesson then, and unless there is a corresponding period of educational discussion now, we shall suffer the direct penalties for our "dense ignorance" expressed by banking legislation.

All truth is simple when you arrive at it by stripping away the cobwebs of tradition and habit, and by supplanting ignorance with intelligence and by eliminating our greed so far as possible. What we want is to establish in the minds of the people those few fundamental principles of banking economies that must be recognized and obeyed. We must know what money is; what true reserves are and how they should be held; what a true bank currency is and how it differs from money; how our conditions differ from those of any other country before we can apply these economic principles.

The adoption and establishment of a banking system for the United States is incomparably the most important economic question that has ever confronted the world. Our territory is 3,200,000 square miles, while that of all Europe, including Russia, is 3,500,000. Mark this, that when the Bank of France was established in 1803 the banking resources of France were inconsiderable, and were, so far as I know, without official record.

In 1844, when the bank act under which the Bank of England was established, the banking resources of that country were probably in the neighborhood of 500 million. The total note issue of England, Scotland, and Ireland was less than 200 million; the public and private deposits in the Bank of England were less than 75 million; and the gold in the Bank of England was less than 100 millions of dollars.

In 1873, when the Imperial Bank of Germany took its present form, industrial Germany was slumbering and the bank resources probably did not exceed 1 billion.

The capital of the incorporated banks was about 425 million, the notes about 325 million, and the reserves held about 30 million.

In 1890, Mulhall, the English statistician, stated that the bank resources of the whole world were only 16,000 million, or 16 billion. To-day the banking resources of the United States alone are upward of 25,000 million or 25 billion, or more than 50 per cent greater than the total banking resources of the entire world only 23 years ago; and we now have nearly one-half of all the banking resources of the whole commercial world.

The significance and seriousness of your work is written in these stupendous figures, and in the fact that your action will indeed affect every day's toil of every American citizen and every dollar of capital for a century to some—yes, possibly for 1,000 years to come—and will also determine in a very large part with what success this Nation shall measure commercial swords with every other nation in the never-ending struggle for the markets of the world.

But some one may inquire:

> Is it as serious as all that? Could we not correct any mistake now made, however small or however great, next year or the year after, or whenever the errors now committed and the blunders now made are discovered?

I say no; and to reenforce this statement have only to inform you that there has been no substantial change in the bank act of France in over 100 years. There has been no change in the bank act of England since it was passed in 1844, more than 60 years ago. Nor has there been any change in the bank act of Germany worth mentioning since 1873, the year of its passage, though now the unsoundness of the scheme demands attention, for it is threatening not only the commercial interests of Germany, but is a menace to all Europe and to ourselves as well.

Gentlemen mark this: There has not been a single serious or substantial change made in the national-bank act since it was passed, now more than 50 years ago. Have efforts been made to change it? Certainly. Ever since 1897 I have been describing and predicting the exact situation that confronts us to-day, and as chairman of the Banking and Currency Committee of the House of Representatives for eight years I did everything in my power to effect changes in the law, some comprehensive, some slight, some of a permanent character, and some of a temporary character, such as to meet the panic of 1907, but all to no avail.

The reason for the permanence of all bank laws, the absolute fixedness of them, is perfectly obvious after a moment's reflection. Banking laws involve every possible business relation, and therefore so long as business, which abhors a disturbance, will endure the conditions in which it finds itself, there can not be a change of consequence.

Every line of business fearing any change because of its inherent conservatism will always protest, and so nothing is done in calmness and as a result of cold reasoning and deliberate judgment. Changes will only come when the situation becomes so intolerable that it can not be endured any longer. This is only a statement of a universal historical truth.

Therefore, since we must do something now, let it be the right thing, the wise thing, not the chance thing of haste.

Chairman Glass is reported in the press as having said, "We must act or plead our incompetence." But does not Mr. Glass know that it would be far better for this country and the Democratic Party as well to plead its incompetence rather than to practice its incompetence on this great country at the expense of the American people? This is no time for an exhibition of party vanity or party power, but of caution and of intelligent and patriotic service, rather. Abject ignorance of the banking question, a wicked prejudice born of that ignorance against it, and political ambition and political necessities have cursed this country all too long already. Away with it. Let there be light. Let the American people have the same opportunity to learn about this vital question that we gave them in 1896 to learn about the standard of value. The people settled that question in three months. Congress had played politics with it for a quarter of a century. Again I say, let there be light, before we take this blind, this fatal plunge into the bottomless abyss which seems to be hidden from the men in power.

From the adoption of the Constitution to the breaking out of the Civil War, beginning with the history of the First United States Bank, whose success and usefulness was supplemented by the marvelous record of the second, there was developed here on this continent in many of our States banking systems that were as good as any the world has yet produced and as perfect in their adaptation to the needs of the people at that time as anything we can now hope, in the highest display of wisdom, to call into being.

The principles of a perfect banking system of a single State or nation considered separate and apart from its relation to any other State or nation are simple indeed.

Hear them, note them, mark them well. With these once firmly fixed in your mind so that you fully realize that you are standing upon these fundamental, these eternal, these irrevocable laws that are just as certain in their operation as the law of gravitation, no sophistry can divert you, no human device can deceive.

First. Whatever your standard of value may be, all bank credit must be convertible into it. Our standard value is gold. All resources must be gold. The only money we have is gold and the only pieces of money we have are the $2.50, $5, $10, and $20 pieces. Every other thing which we popularly call money is, correctly speaking, only a demand for money, a demand for gold, an agreement to pay gold, for gold alone is its own redeemer. Every piece of it, whether a dull, misshapen slug or a shining coin bearing the impress of this great nation is worth identically the same. Will you say this of your silver in the pig, or the pulp from which your bank notes or your United States notes are made? However, it took a great national campaign to demonstrate and establish this fact in the minds of the American people, and now we are in need of another great campaign to establish another great, fundamental economic truth.

Second. The customer of a bank has a right to ask for that particular form of credit that will best serve his particular need and receive it at the lowest possible necessary cost. All the different forms of bank credit are essential to best meet the ever-varying condition of trade throughout the length and breadth of this land.

Third. It is the duty of the bank to furnish its customers that particular form of credit that will best serve their particular need,

if they are entitled to credit at all; and it is the duty of the bank also to keep its credit in the various forms as good as the standard of value, as good as gold.

Fourth. It is the office and duty of the Government to provide a banking system that will enable the banks of the country to furnish these various forms of credit at the lowest possible cost and compel the banks to keep it as good as gold. The science of banking then is to effect the exchange of all commodities, the myriad products of the American people, at the lowest possible cost to them.

More concretely and simply expressed, these principles mean (1) ample coin reserve; (2) interchangeability of deposits subject to check and bank notes; (3) quick current coin redemption of both.

Any banking system founded upon these principles establishes three facts at once:

First. That it must necessarily be found in principle.

Second. That the customers who are entitled to credit and always get it in precisely the form that will best serve their purposes, whether a current credit in the form of a note or a deposit credit subject to check.

Third. That the two credits, the current credit in the form of a note, or a deposit credit subject to check are identical, differing only in form—one, the note passing without any indorsement; the other, the check passing with an indorsement. Also that the cost of each is identically the same, viz, only the interest on the reserve held for the protection of both of them; that is, if a bank holds a reserve of 20 per cent against its deposit subject to check, and 20 per cent against its note issue, bank notes will cost the customers precisely the same and no more than a deposit subject to check.

The profit to the bank upon a given amount of bank notes issued will not be as great as upon a corresponding amount in a deposit subject to check, because of the additional cost of the plates and the cost of the noted printed upon them.

Issuance of bank notes is not a privilege to a bank but a duty of a bank to its customers, as a matter of convenience and economy.

Bank notes are not money. They are only another form of bank deposit that will better suit the customer than a deposit. A bank deposit is a debt. A bank note is a bank debt. They are identical. They are both agreements to pay money. They are both deposits—one a current deposit, the other an order deposit. That is the only difference, which is no difference at all so far as the bank is concerned, and is no difference at all so far as the customer is concerned, except that he has his bank credit in precisely that form that will exactly serve his convenience.

When there is no perfect interchangeability of the two the habits of the people will determine which will be the larger increment. I want you gentlemen to mark those words; there is perfect interchangeability of the two; the habits of the people will determine which will be the larger part, whether bank notes or the deposits.

Senator NELSON. Or the check?

Mr. FOWLER. Just the habits of the people will determine. Right on that point, gentlemen, I want to call your attention to the fact that 15 or 18 years ago, when I was maintaining this economic truth, it was very much ridiculed and given a great many names, such as

the india-rubber currency and asset currency, and no one that I know of now who then recognized it except myself. And I remember very distinctly in 1902 when I was at the New Orleans American Bankers' Association Convention that I was hooted because I advocated this very principle.

Now, I want to call your attention to a most interesting statement made by Paul Warburg, in the North American Review, on this very question, because it is, to me, refreshing:

> Notes that have been issued to-day may again be turned into book credits to-morrow. They are interchangeable, and, from the Federal reserve bank's point of view, they ought to be treated alike—both as deposit liabilities. To cut these functions in two, to attempt to let book credit and the note—twin brothers—be born of two different mothers, is a most anomalous proceeding.

I approve of that heartily.

The CHAIRMAN. That is Mr. Paul Warburg, of Kuhn, Loeb & Co., representatives of the Rothschilds, is it not?

Mr. FOWLER. I do not think they are representatives of the Rothschilds. I think they are representatives of Kuhn, Loeb & Co.

Senator SHAFROTH. He is the same man who wrote that article in the Monetary Commission's reports concerning discounts, which was a very able article.

Mr. FOWLER. I would like to pay my respects right here to Mr. Paul Warburg, as, in my estimation, having contributed more substantially to the advancement of this question than any other one man in this country.

Beginning with the Bank of Scotland in 1695, about 220 years ago, the evolution of bank credit currency has been unbroken. The next link in the chain was the bank notes of the First United States Bank, whose charter was drawn by Alexander Hamilton, one of the most subtle, astute, and profound banking economists the world has ever produced.

In 1804 the grand old Commonwealth of Virginia, following the Scotch example, established the Bank of Virginia, with a capital of $1,500,000, with the right to issue notes to three times the amount of its capital, provided that the bank always kept a reserve of 20 per cent in coin. Five other banks were established in Virginia, all of them having the right to establish branches. There is no record of any one of these banks ever failing. No one, it is stated on high authority, ever lost a dollar by holding a note of a Virginia bank up to the time of the Civil War, and the notes of the Bank of Virginia were at a discount of only one-quarter of 1 per cent in New York.

Detailed information might be given of a marvelous banking system that developed in Louisiana under a general banking law, providing for individual banks without branches, which required a 33 per cent coin reserve, without any limit whatever being placed upon the notes issued or deposits taken. The effect of this law was such that at the time of the outbreak of the war Louisiana had more gold than any other State in the Union except New York. The day Gen. Butler marched down the streets of New Orleans the banks were redeeming their notes in gold coin.

I remember a very interesting episode which you called my attention to, Senator Nelson, of which I was not aware until you repeated it to me, that those notes were cut in half—in halves and quarters.

Senator NELSON. They cut them in halves; a dollar bill was cut in two and each half passed as a half dollar. Five-dollar bills and

three-dollar bills were treated the same way in the State Bank of Louisiana. That was in 1862 and 1863.

Mr. FOWLER. Striking confirmation of the virtue of these simple but sound principles can be found in the banks of Kentucky, Ohio, Indiana, Iowa, and Missouri, and in the six New England States under the Suffolk system. In no case did any one of these separate individual systems fail to demonstrate the soundness of the principles upon which they were founded. Nor is there a single instance where they have ever failed.

It is often said by the unthinking—unthinking because utterly ignorant both of the principles involved and in the invincible results established by history—that there must be a human control somewhere between deposits subject to check and the note issues; I assert that all experience shows that the only sound, wise, and scientific control of note issues, as well as deposits, lies in ample coin reserve and proper facilities for quick coin redemption.

Recardo states this omnipotent and unvarying law so well that you should all hear it and never forget it:

> The issuers of paper currency should regulate their issues of currency solely by the price of bullion, and never by the quantity of their paper in circulation; the quantity can never be too great or too small while it preserves the quality of the standard of values.

The soundness of Recardo's law for the absolute control of bank credit was illustrated with such emphasis, certainty, and undeviating accuracy in the operation of the Suffolk system that the main facts should not be passed over unnoticed at this time. There were 504 independent individual banks in the 6 New England States having capital ranging from $25,000 each up to $500,000 each.

Now, gentlemen, mark the history of what was the most perfect banking system that has ever existed in this world anywhere, which went along without any law whatever except the practices of the New England people.

The total right of note issue aggregated more than $131,000,000, but the maximum amount of bank notes outstanding at any one time never exceeded $57,000,000.

Senator HITCHCOCK. What was the right of note issue based on?

Mr. FOWLER. The law gave to some three times the amount of capital and to some two.

Senator HOLLIS. What date was that?

Mr. FOWLER. You mean when did it exist?

Senator HOLLIS. Yes.

Mr. FOWLER. From 1819 to 1865, when the 10 per cent tax went on.

Senator WEEKS. I think, Mr. Fowler, you ought to state that it varied some.

Mr. FOWLER. Yes; I will state that.

This maximum issue occurred during the panic of 1857. The average amount of notes outstanding for the 25 years preceding the war being only $53,000,000, or only 33 per cent of the permissive or possible issue of $131,000,000. The bank credit of the Suffolk system in the form of bank notes exceeded the bank credit in the form of bank deposits by 33 per cent, as the deposits averaged only $31,000,000 during the 25 years before the war, as against $43,000,000 of notes.

The interchangeability of bank-book credits and bank-note credits was perfect, the one passing into the other with unobstructed facility. This marvelous adaptation of bank credit to the ever-changing conditions of trade was illustrated during the panic of 1857. In 1856 the note issue was $50,000,000 and the deposits amounted to $32,000,000. During the panic the note issue rose to $55,000,000 and the deposits fell to $25,000,000, there being a conversion of $5,000,000 deposits into bank notes. In 1858, one year after the panic, the note issue had fallen to $36,000,000 and the deposits had risen to $47,000,000, or there had been a conversion of more than $20,000,000 of bank-note debts into bank-deposit debts. The exigency for cash had disappeared.

Senator Hitchcock. Was there any panic among the note holders?

Mr. Fowler. There were 497 banks at the beginning of that panic and there were 502 banks the next year. I give you that to show you that they went through the panic without any destruction to the banking system. I will come to the point of the safety of those notes, which largely touches the points you are referring to, a little later on.

Canada copied the Massachusetts bank law before the war, and there to-day this same principle is in operation, furnishing Canada the most facile and the most economical and the most perfect currency system in the world.

This, then, was the one invaluable contribution of American banking experience to banking economies before the war. Ample coin reserve, interchangeability of bank-book credits and bank-note credits, quick coin redemption.

The Civil War made a most important contribution to our currency which we had never enjoyed up to that time, and that was a uniform appearance, character, and value all over the United States. The Government was seeking new ways of raising funds for carrying on the war, and hit upon the device of compelling the banks to buy United States bonds as a basis of bank-note circulation. To make the scheme successful it was necessary to give the national banks a monopoly of the note issue. The one and the only beneficial result was to produce a uniform currency for this country. But coincidentally in establishing the latter we destroyed all that we had gained in all the preceding 75 years of our national history by putting a tax of 10 per cent upon all bank-note issues. To-day we can combine all that we had gained before the war with the characteristic quality of our national-bank-note currency by simply returning the United States bonds now deposited to secure our national-bank notes to the respective banks who own them, thus contributing $750,000,000 to the commercial fund of the country, for in a comparatively short time this vast investment capital of $750,000,000 could be converted into cash or commercial capital.

I am of the opinion that if the $750,000,000 of 2 per cent bonds are converted into 3 per cent bonds and turned over to the banks, being free of tax, the savings banks, insurance companies, trust companies, and trustees of estates would absorb them at about par within a year and this vast sum be available for the commerce or productive industries of this country.

Senator Nelson. You mean the national-bank notes issued on 2 per cent bonds?

Mr. Fowler. I mean all the bonds would be converted into savings-bank investments, insurance-company investments, and these large estates in Chicago and New York and Boston, and all the big cities—they are free of tax, and what they are looking for is safety, and not excessive income. I have not any doubt about it, and I think if you gentlemen will study it, you will be convinced of the same thing.

Senator Shafroth. If the circulation privilege is taken away from them——

Mr. Fowler (interposing). They then become an investment for the insurance companies and others.

Senator Nelson. You mean by that, if I understand you, that they take the 2 per cent bonds on which the bank-note circulation is issued and gives them 3 per cent bonds in lieu of them for circulation; if you do that you would release this national-bank currency; is that what you mean?

Mr. Fowler. If you will strike off from the top of the bank notes this barbaric superscription, "Secured by Government bonds" and other securities and leave the bank notes where they are, in the hands of the banks, and return them their bonds, after making them 3 per cents, which I would do by putting a tax of 1 per cent on the bank notes, and transfer that tax to the interest account of the Treasury Department, so it falls on the banks with those bonds.

Senator Nelson. What it amounts to, Mr. Fowler, is this: You would eliminate the present bond-secured currency?

Mr. Fowler. Absolutely.

Senator Nelson. And have an asset-secured currency?

Mr. Fowler. A bank-credit currency.

Senator Nelson. What is called asset-secured currency?

Mr. Fowler. Let us forget it; let us call it bank-credit currency.

Senator Hitchcock. There would be no security except the general credit of the bank. Suppose the bank failed?

Mr. Fowler. Right on that point I desire to say if you eliminate the savings deposits you will have in the United States $25,000,000 of bank assets. If these banks could issue credit currency as their customers wanted it, just as you give them credit on deposits subject to check, carrying the same reserves against them, making them a first lien against the $20,000,000 of assets, putting up an insurance fund of 5 per cent, they would be safe beyond all peradventure, because for the 50 years the national banking system has been in operation a tax of one-fifth of 1 per cent on all bank notes would have paid all the notes of banks that have failed.

Therefore, an insurance fund of 5 per cent will guarantee safety for 25 years.

Senator Nelson. That is, have the bank pay 5 per cent and make that a common fund, available for all?

Mr. Fowler. Absolutely.

Senator Nelson. So that that fund can be dipped out of in any case?

Mr. Fowler. Absolutely; a general fund.

Senator Nelson. You are very interesting, and I want to see if I understand you. Your theory is that the bill holder in such a case has as much security as the man who has a credit account on the books of the bank, against which he can check?

Mr. FOWLER. All of that and more, because the bill holder has a first lien upon the assets of the bank.

And, second, there is a 5 per cent insurance fund up for all the notes.

Senator NELSON. I see. I simply wanted to clear my mind on that subject.

Senator POMERENE. You would secure these notes by proper reserves?

Mr. FOWLER. The same identical reserves that are carried against deposits, because they are a deposit and nothing but a deposit.

Senator POMERENE. You require them to be kept in gold?

Mr. FOWLER. I would, as quick as I could.

Senator POMERENE. How much of a reserve would you require?

Mr. FOWLER. The same as they carry now, with the exception of some little differentials.

Senator McLEAN. I was just going to inquire if, under the Suffolk system, they have this insurance feature?

Mr. FOWLER. No, sir; I am coming to that point.

Senator HITCHCOCK. Would you not require a larger reserve against notes than against deposits?

Mr. FOWLER. Notes are nothing but deposits.

Senator HITCHCOCK. The European practice is to require a larger reserve against notes.

Mr. FOWLER. That is only where they have central banks, where they are supposed to be carrying the reserves of the country.

But this should only be done with the two accompanying incidents. First, the bonds should be made to bear 3 per cent interest in order to protect the credit of the United States Government and to keep faith with the national banks who now hold them as a basis of their circulation.

Second, we should avail ourselves of the development of American banking since the war as expressed in the most highly organized clearing house which has established these four functions.

Let me note right here that all of these functions are without law, and one of them in absolute defiance of law—simply grown up as a matter of convenience in business: First, clearing-house committee; second, clearing-house examination; third, clearing-house reserve; fourth, clearing-house credit currency.

Clearing-house credit currency is precisely the same currency that served the people of the United States before the war, in 12 States, perfectly—perfectly, I say.

Did you hear that word perfectly? I used it advisedly, and with malice aforethought, because no other word can more fittingly and adequately describe the soundness, the economy, the facility, and the invariable and instantaneous adaptation of it to every possible contingency in 12 different States of this Union before the war.

It was used by the two United States banks through their various branches. It was used by the five banks of Virginia through their various branches; it was used in Louisiana under a general bank law by individual banks without branches; it was used in Kentucky by the banks of Kentucky and their branches; it was used by the Ohio State Bank through its 39 branches. The State Bank of Indiana and its successor, the Bank of the State of Indiana,

both credit-currency banks, went through the panics of 1837 and 1857 without the loss of a cent to either a note holder or a depositor. The Bank of the State of Iowa, with its branches, was a credit-currency bank. The great Bank of Missouri throughout the sparsely settled West, whose notes circulated clear to the Pacific coast, was a credit-currency bank.

In New England 504 individual and independent banks, scattered throughout six different States, and with capital varying from $25,000 to $500,000, to all intents and purposes had the right of unlimited note issue, when you consider the actual amount of notes issued compared with the permissive issue, and were all bound together in a single system by the Suffolk Bank, at Boston.

Senator WEEKS. Mr. Fowler, do you not think you should state just there that that note-issue was dependent, however, on the redemption fund in the hands of the Suffolk Bank?

Mr. FOWLER. I will explain. I said that it grew up without any law. Some gentlemen got together in Boston with the idea of compelling country banks to redeem their notes in Boston.

Then, gentlemen, you must remember that the larger part of the banking credits were in notes and not in deposits subject to check, because the people used it in that form. Every bank in New England coordinated itself with that system and no bank could start in New England without redeeming its notes in the Suffolk Bank, because if the notes were thrown out of the Suffolk Bank the bank could not do business. These notes were so good that they were taken all over the United States, and to Buffalo, and to Cincinnati, Chicago, and Milwaukee, and St. Louis at a premium of from 1 to 3 per cent, because they were currently redeemed in Boston in coin, and they never asked the question whether a bank had $25,000 of capital or what the capital was at all; but if they were redeemed at Boston at the Suffolk Bank in coin that was the touchstone. Does that answer the point?

Senator WEEKS. Yes.

Senator POMERENE. They were the notes issued by these different banks?

Mr. FOWLER. Yes.

Senator POMERENE. Bankers' banks?

Mr. FOWLER. No; individual banks.

Senator POMERENE. And all organized under the laws of Massachusetts?

Mr. FOWLER. No; all the six New England States had different laws.

Senator POMERENE. You are speaking of the entire New England States?

Mr. FOWLER. Six States; the whole system.

Senator POMERENE. You are speaking of the entire New England States?

Mr. FOWLER. Yes, sir.

It will be observed then that under every conceivable condition, under all kinds of circumstances, and in all parts of the United States, in the newest as well as the oldest parts, bank-credit currency was tested, proved, and established wherever it had been tried, and that to-day it is furnishing Canada, all things considered, the most economical, the most efficient, the most perfectly adapted currency

for the needs of business in the whole world, and as good as gold in which it is redeemed daily at the clearing houses and over the counters of the Canadian banks.

The Canadian bank notes are made a first lien upon all the assets of the respective banks issuing them, and in addition they are insured by a guaranty fund of 5 per cent of the amount issued. No one has ever lost a cent by holding a Canadian bank note since the system was established more than 60 years ago.

Our present bank notes are a first lien upon all the assets of the banks issuing them, in addition to the fact that they are also secured by the deposit of an equal amount of Government bonds.

The record of the comptroller's office of Washington shows that during the whole 50 years since the national-banking system was established that a tax of one-fifth of 1 per cent on the total amount of notes outstanding would have paid the notes of all the failed banks. Therefore an insurance fund of 5 per cent would pay all the notes of failed banks for a period of 25 years.

Some one here may remark as they have often done in times past, "Oh, well, if the bonds had not been deposited to secure the notes, the conditions might have been different."

Mark this: May it never be forgotten by anyone of you that it would have taken a tax of only one-eighth of 1 per cent to pay all the notes of the banks that failed under the Suffolk system. That is, the tax necessary to pay the notes of the failed banks under the Suffolk system was only a little more than half as much as the tax necessary to pay the losses on notes under the national system if they had not been secured by bonds.

Senator SHAFROTH. That was a tax per annum?

Mr. FOWLER. A tax per annum.

And the reason for that was in the fact that they were daily redeemed in gold coin.

Senator POMERENE. May I ask you there, under that Suffolk system, how much of a gold reserve was carried——

Mr. FOWLER (interposing). The banks themselves carried a reserve, and they made them carry an additional reserve at Boston that varied according to the size of the bank and the amount of its issue.

Senator POMERENE. The reserve at Boston varied?

Mr. FOWLER. Yes.

Senator POMERENE. How much of a reserve did the banks carry in their own vaults?

Mr. FOWLER. It varied in those different cities.

Senator POMERENE. Well, approximately.

Mr. FOWLER. Oh, approximately from 5 to 10 per cent, and some of them 15 per cent, but that is a long story.

Senator NELSON. Did not these outside banks who had their notes made redeemable at the Suffolk Bank keep gold on deposit there?

Mr. FOWLER. The Suffolk Bank required a bank to keep an amount of coin with them that was commensurate with the amount of their liabilities.

Senator WEEKS. Originally they required $2,000 of free coin and enough to cover the notes presented for redemption——

Mr. FOWLER (interposing). Current—yes.

Senator WEEKS. On the $2,000 free coin no interest was paid.

Mr. FOWLER. They required an original deposit of $2,000, but then they made an arrangement with every bank that coordinated itself with the necessities of that bank.

Every man within the hearing of my voice must ad'i it that the historical proof in favor of the bank-credit currency is literally overwhelming and absolutely precludes even the basis of an argument against it.

Now, gentlemen, come to the very crux of this great question. Let us establish a test out in the city of Chicago. The Chicago Clearing House is the natural outgrowth of business conditions. There is no law by which is exists. The clearing-house association was created without any statutory provision, and the clearing-house committee is a board of trustees to execute the will without any legal authority whatever.

In the first place it was found by long experience that it was a great convenience to meet and swap credits or cross accounts and pay the balance.

In the second place it was learned that it was a matter of great advantage to carry a part of the reserves at the clearing house.

In the third place it was discovered that they would not depend upon the political bank examiner, whether they received their instructions from Washington or Springfield, and therefore, without any authority of law, it instituted a system of bank supervision entirely its own and placed in charge of it a clearing-house bank examiner. His moral authority—for he has no legal authority—does not stop at the threshold of the banks that are actually members of the clearing house, but it extends to every bank that clears through any member of the clearing house. From their experience they have learned that no bank will long continue to act in violation of their advice and instructions. All know that the banking situation there is very much sounder, if, indeed, it is not incomparably so, than it would be but for the clearing-house supervision. Twenty cities have now adopted the plan. Not a bank failure has occurred in a city where adopted.

In the fourth place they did, by an evasion of the law at least, if, indeed, not in direct violation of the intent and purpose of the law, create and issue a pure credit currency in 1907 amounting to $7,500,000, in denominations of $1, $2, $5, and $10.

Will any banker from Chicago say that if the banks that issued that $7,500,000 of credit currency had issued a corresponding amount of true bank notes, just such as they issue in Canada, without depositing United States bonds or any other kind of collateral to secure the payment of them, but if instead the bank notes so issued had been made a first lien on all the assets of the bank issuing them, and if there had been deposited in addition an insurance or guaranty fund of 5 per cent of the total amount of such notes in gold. will any banker in Chicago, would any of you declare that the notes so issued would not, under any and all circumstances that could possibly arise in the ordinary course of human events, be as good as gold? That is what I want to know. Would they not be absolutely good? Would they not serve their purpose perfectly?

Now, gentlemen, suppose that you should extend the bank organization that was developed here in Chicago to the natural commercial zone that is directly tributary to that great commercial center. Then

assume, if you will, that the bank capital included in this commercial zone should amount to $100,000,000 and the deposits should amount to $750,000,000, calling for an average reserve of $150,000,000, of which from $50,000,000 to $75,000,000 was carried at the center in Chicago for mutual convenience and protection.

I want to say to you, gentlemen, that at the clearing houses now there is being carried by the banks $200,000,000 of reserves.

Senator WEEKS. You mean that is carried at the clearing-house centers instead of in their own vaults?

Mr. FOWLER. Yes.

Senator POMERENE. Is there any official report of that fact?

Mr. FOWLER. No, sir; I have investigated it from the clearing houses.

At present the national-bank notes of this zone outstanding aggregate about $60,000,000, or 60 per cent of the capital. Let us assume, for the purpose of illustration, that every bank in that commercial zone has the right to issue an amount of bank notes equal to its capital, precisely as the Canadian banks have to-day, and that the operations of the banks were confined to that commercial zone, and that it did not cost a bank within the zone anything to send the notes that it might receive to Chicago, where they must be paid in gold as well as over the counter of the bank of issue.

Do you believe that there would remain outstanding a single bank note for a single hour longer than it was needed to facilitate the trade and commerce of this supposed commercial zone? Don't you know that you would always have precisely the amount of notes in circulation that trade demanded; no more, no less? Don't you know that such notes would be sent home with the same celerity that checks are, and that both the notes and the checks would go by the same mail or the same express in the same package and that the notes and checks would be cleared together, because the banks could get gold for the notes and could also pay out its own notes if its customers should want currency? Don't you know that a credit-note issue would be a deposit at your bank for the exact amount of notes outstanding at any time? Don't you know that if all the banks in this supposed commercial zone banded themselves together to supervise each other you would never have a bank failure in this zone? Don't you know that their reserve against such a note issue would be identical with their reserves against their deposits, and therefore that the cost of such currency to him would be the interest on the reserves, or only one-fifth of the average of what currency will cost when they have to buy it, to say nothing of all the attendant trouble and extra expense of sorting, selecting, and shipping commercial paper backward and forward across the country?

Now, let us calculate what this commercial zone would have to do to maintain $100,000,000 of currency, for which you would have to discount commercial paper. In the outset it would take $66,000,000 of commercial paper to get the currency out. The balance would be lawful money, although it should be gold.

Senator NELSON. How do you make out those figures?

Mr. FOWLER. That is taken from this bill. I am assuming you have to provide a currency under this bill instead of a pure credit currency. I have formed a zone simply by extending the process of the clearing houses to all the banks properly tributary to Chicago.

Senator NELSON. You are applying this bill to that zone?

Mr. FOWLER. Yes; and telling you what it will cost to do it.

Senator NELSON. Making Chicago the regional bank?

Mr. FOWLER. I hope it never will be.

Senator NELSON. Well, go on.

Mr. FOWLER. It is the center of a commercial zone; that is, it is a natural center to which credit flows.

A prominent banker stated to me that if the time limit for the paper to run was made 60 days, the average life of the paper sold would not exceed 30 days. It is evident, therefore, that to maintain $100,000,000 of currency throughout the year you would have to rediscount $66,000,000 of commercial paper every 30 days, or $800,000,000 every year balance, or 33 per cent, being in lawful money. Now, remember your total deposits for your entire commercial zone are only $750,000,000. Will it pay? Will you get as useful a currency as you could get without discounting a single dollar's worth of paper? Will it be as well adapted to your needs? Will it be as good in any one way?

I assert that the plan now being considered will not produce a currency at all adapted to the needs of this country; that it will not be immediately responsible to the requirements of trade everywhere and all the time, as a bank credit currency is; that it will not respond immediately and directly to the demands of current transactions; that it will be not only five times as expensive, but when once out there will be no natural impulse to send it home, as in the case of a bank credit currency. Twenty thousand State banks and trust companies will hold it as reserve, and just to that extent drive gold out of the banks and out of the country, leaving us ultimately upon the quicksand of a mad inflation.

In 10 years we should have, under proper financial and banking arrangements, at least $3,400,000,000 of gold in the United States, possibly as much as $3,500,000,000, but if under the spur of party pride, party ambition, and under the power of the party lash, Congress should pass this measure, we will in the same period have somewhere in the neighborhood of $1,500,000,000 of gold; possibly considerably less. Add to this situation the astounding proposal of confusing the price of commercial credit with the price of gold, two absolutely different factors, and you have started upon a gallop for commercial bedlam and financial ruin. There can be no question whatever about the appalling disaster that awaits us, for just as soon as the slightest apprehension arises about the stability of the situation in this country, which is sure to follow very soon, the true balance of trade against us every year, now variously estimated from $400,000,000 to $600,000,000, due to foreign freights paid, interest on American securities held abroad, cash spent by Americans in foreign countries, and money sent out of the country by nonresidents, will materialize; possibly almost in a night, for panics, like ware, are born of an incident.

The causes that may influence the movement of gold to or from us may be summed up as follows: First, the balance of trade; second, the state of foreign exchange throughout the world; third, the state of our currency—that is, the use of substitutes for real reserves, such as United States notes, silver, and bank notes, in place of gold. The present plight of Germany is due to her use of bank notes as reserves.

It is a vivid illustration. History has furnished hundreds of illustrations, but the most forcible in our recent history was the issue of the United States notes in the sixties and the effect of the silver-purchase act of 1890. Gresham's law, put into operation, will overcome all opposing forces. So that to bring your own proposed measure to trial the use of these notes would do just what I have said they would do.

Senator HITCHCOCK. The use of these notes would drive gold out of the country?

Mr. FOWLER. Absolutely.

Senator HITCHCOCK. Under the Gresham law?

Mr. FOWLER. Absolutely.

Senator HITCHCOCK. That is a matter about which I have been trying to inquire of witnesses.

Mr. FOWLER. Fourth, foreign financing. Fifth, political disturbances. Sixth, the state of the money market in foreign financial centers. Seventh, demands for capital in periods of speculative development in foreign countries. Eighth, changes in our tariff laws.

It is easy to imagine how complicated and powerful these forces might become, and how essential it is that we should be ready to combat them when the tide turns against us. We must be in a position to buy and sell gold bullion, and to buy and sell domestic and foreign exchange, and to loan a large sum of money, gold I mean, quickly through a board of control to stop a panic in some financial center, and last and above all we must hold the chief key to the situation. That key lies mainly in the power to fix and enforce a price for the use of gold in what is popularly called a discount rate for gold and make it universal throughout the United States.

Now, gentlemen, if Gresham's law is in operation, driving the gold out of the country, fixing the bank rate will not bring gold into the country. That is happening right now in Germany, and the great German banks, in the last two or three years, as some banks here know, I presume—at least the New York bankers do—that the German banks with a capital of $500,000,000 have borrowed money in this country at as high as from 15 to 20 per cent.

I want to emphasize this economic truth, that whenever the Gresham law is in operation and the suspicion of the whole world is turned to a financial center you can not bring gold back by raising a rate upon it.

Senator HITCHCOCK. I want to ask you to restate what your criticism was of the German system now. What does it consist of?

Mr. FOWLER. I will come to something a little later on that I think will explain that.

Senator HITCHCOCK. You did state that it is——

Mr. FOWLER (interposing). I think I will cover what you want in what I am going to say hereafter.

The bidding and struggle for gold now going on demands that we have a single central gold reserve, entirely disassociated from our currency system, in order that we may deal with the price of gold precisely as England does, as distinguished from the conglomerate situation at Berlin, where they regard it next to a crime to take gold.

Germany, owing to this fundamental error in her financial system, has been the peril of all Europe for the last 10 or 15 years, and has been gradually but certainly moving towards a cataclysm of gigantic proportions.

Senator HITCHCOCK. What does that fundamental error consist of?

Mr. FOWLER. The confusion of commercial credit and gold; that is, on a currency system with a gold reserve.

Senator REED. Mr. Fowler, I hope it will not interrupt you if I stop to ask you if it is not a fact that in the last 20 years Germany has advanced more rapidly in population, in wealth, in industrial activity, in exportation, and in all that makes a nation stronger than any other nation in Europe?

Mr. FOWLER. She has done that, notwithstanding her banking system, precisely as the United States have outstripped her in those same things notwithstanding our banking system.

Senator REED. But the fact remains that under this bad banking system she has made those advances.

Mr. FOWLER. She is temporarily bridging her difficulty by draining the gold from every nook and corner of the Empire—from every bank, from every store till, and from every pocket—by exchanging bank notes of small denomination for the gold wherever she can find it, only to accentuate in the end the inherent weakness of her situation.

Can we do no better than to follow in the footsteps of the one country that above all others is in constant trouble and a peril not only to itself, but to all the rest of the commercial world from perfectly obvious reasons?

In my last speech in the House of Representatives, delivered March 29, 1910, I used this language with regard to the German banking system:

Its gold reserve is of the halfway sort, and its bank-note issue is also of the halfway sort. The result is that the financial and banking situation of Germany must necessarily prove weak upon the first great test when the bank notes of the Imperial Bank of Germany must be made a legal tender.

Indeed, upon the declaration of war by Germany or against Germany the first step taken in a financial way would be for her to declare her bank notes a legal tender. It is hardly problematical what would soon happen, with the wide divergence between her gold fund and the amount of her note issue.

Imagine for a moment a central bank in the United States, like the Imperial Bank of Germany, issuing all our bank-note currency and these notes going into the reserves of our myriad of banks as the basis of loans which, under our system, in turn become our deposits.

The natural, first, and immediate effect would be an expansion of credit, an inflation to just the extent to which the notes were used for reserves.

As soon as the situation became obviously dangerous, a halt would be called and a contraction in loans would follow. But a contraction of loans calls for liquidation and liquidation produces an exigent demand for currency. We all learned that lesson only so short a time ago as 1907.

But in the very face of the increased demand for more currency the currency would be contracting, because the loans would be reduced by calling in bank notes which were being used for reserves; or, in other words the loans called would be paid in bank notes.

For every $100,000 of notes so called in the loans might be reduced to an average of $500,000 and yet this very process of liquidation would be concurrently destroying the only instruments of credit that would adequately meet the demand created by itself—the demand for cash. It would clearly lead to self-destruction, to commercial suicide.

The best thought of England recognizes this subtle but obviously destructive contradiction in the use of credit, and therefore opposes the issue of credit notes by the Bank of England.

Within 15 months from the time that I made this prediction, Germany did make her bank notes a legal tender, the occasion being a possible war with France. I assert that the German financial situation has been gradually but certainly getting more difficult and serious every year since.

On January 20, 1912, at the Republican Club, in New York, I used this language:

During the 10 years from 1900 to 1910 the gold accumulated by Russia amounted to upward of $200,000,000; that accumulated by France, upward of $300,000,000; that accumulated by England, where nothing but gold is treated as reserves, and where there was comparatively little growth in business, $32,00,000. The United States accumulated $1,100,000,000 while Germany, with all her development of trade during the last 10 years, accumulated only $40,000,000, when all things considered it should have been 10 times as much, or $400,000,000. If she had done this she would not have been compelled to send her great financial institutions all over the globe in search of gold and would not have been compelled to pay 15 per cent, and some 20 per cent, for it.

Gentlemen, within 60 days after these words were uttered this conversation was reported to have taken place. The German Emperor asked Herr Havenstein, the president of the Imperial Bank of Germany, whether Germany was prepared, financially, to carry on a war with a first-class power. Herr Havenstein said "No." To this the German Emperor replied, "I do not want that answer to that question when I ask it again." Herr Havenstein immediately called the managers of the 30 great banks together and told them that they must collect at least a 15 per cent reserve. To this they protested, saying that it meant the accumulation of at least $250,000,000 in gold; but Havenstein persisted and insisted upon his demand. Now, gentlemen, if you add the $40,000,000 they had accumulated to what Havenstein insisted they should accumulate, or $250,000,000, you have nearly $300,000,000 as a minimum. It is altogether probable that $400,000,000 was nearer what they should have accumulated.

So far as I know, his demand upon the banks has utterly failed. The Imperial Bank resorted to the issuance of smaller notes in order to gather in gold from throughout Germany.

Gentlemen, I assert that unless Germany changes her financial system fundamentally there can be but one ending. She is now traveling over identically the same road economically, though under far more favorable circumstances, that England traveled before this passage of the English bank act in 1844, and history is only repeating itself again in Germany. Are we now so totally ignorant of the fundamental principles of banking economies and all history as to fall a ready and easy victim to this certain and fatal folly?

Senator HITCHCOCK. Before you pass on to that, I still have not got it straight in my mind the particular defect you desire to criticize in the German banking law. As I understand it, the Reichsbank in Germany can issue notes to the extent of three times its gold reserve. Is that right?

Mr. FOWLER. Yes, sir; that is correct.

Senator HITCHCOCK. Do you think that is not a sound basis?

Mr. FOWLER. They should not issue any notes at all, because those notes in turn are put into the reserves of the banks, and then instead of having a reserve of 100 per cent they have a reserve of only 33 per cent, and to the extent that every one of those notes is used in any bank it drives out just that much gold.

Senator HITCHCOCK. Were not those made available for the reserves of the other banks and made legal tender also for the purpose of driving that gold out and into the Reichsbank?

Mr. FOWLER. No; I do not think so.

Senator HITCHCOCK. We were told here by a witness that one of the reasons why the notes of the Reichsbank were made legal tender and good for the reserves of other banks was for the purpose of allowing the Reichsbank to get rid of the notes, and that the effect had been to increase the reserve in the Reichsbank.

Mr. FOWLER. That was the reason for the notes in 1873.

Senator HITCHCOCK. They were not legal tender.

Mr. FOWLER. But that does not make any difference. All the banks were looking to the Reichsbank for protection.

Senator HITCHCOCK. They made them legal tender within three or four years.

Mr. FOWLER. At the time of the trouble with France.

Senator REED. What do you say they ought to do with the German system to make it safe?

Mr. FOWLER. I think they have got to divorce their note-issuing function from their currency function.

Senator REED. Of course, that is a general statement and might mean many things. Concretely, what should they do?

Mr. FOWLER. When you ask me to revise their whole banking system, that is a big question.

Senator REED. But what would you suggest, fundamentally?

Mr. FOWLER. That is fundamental: that is absolutely concrete and fundamental, that they should not confuse the issuance of their currency with their gold reserve.

Senator REED. Do you mean, then, that the gold reserve should be a thing entirely independent——

Mr. FOWLER (interposing). Just as it is in London.

Senator REED. And the currency not redeemable in gold?

Mr. FOWLER. I would make every dollar of currency redeemable in gold.

Senator HITCHCOCK. You just said a little while ago you thought the national banks of the United States ought to be permitted to issue their present national-bank notes without any bond security.

Mr. FOWLER. Yes.

Senator HITCHCOCK. But you would require them to keep a reserve against those notes equal to the reserve they were to keep against deposits?

Mr. FOWLER. That is correct.

Senator HITCHCOCK. That is exactly what they are doing in Germany.

Mr. FOWLER. No; they are keeping—the banks of Germany are holding their notes as a reserve, and in the United States we are issuing notes; it is just the reverse.

Senator HITCHCOCK. It is true that the 30 big banks do not issue notes, except one or two, but the Reichsbank, when it does issue notes, is in exactly the same position as the national banks in this country. It issues the notes and keeps a gold reserve to the same extent that it keeps a gold reserve against deposits. Is not the Reichsbank in Germany doing just what you propose to have the national banks in this country do?

Mr. FOWLER. No. I would have a central gold reserve in the United States, which would amount to somewhere between $1,200,000,000 and $1,500,000,000.

Senator HITCHCOCK. Where would you have that reserve?

Mr. FOWLER. Here in Washington as far as the control goes, but it would be distributed throughout the United States at each commercial zone center.

Senator HITCHCOCK. You are not talking about the national-bank system?

Mr. FOWLER. Oh, no.

Senator HITCHCOCK. You are talking about a bill now. I am speaking about your statement that you believe that the national-bank notes should be free from bond security, and that the national banks should be permitted to issue $700,000,000 of national-bank notes and keep a gold reserve against those notes in the same proportion that they keep a gold reserve against their deposits. Now, the Bank of Germany is keeping a gold reserve against its notes to the same extent that it keeps a gold reserve against its deposits. Why do you not criticize that system over there?

Mr. FOWLER. There is this difference—and I will explain it as I go on—that in this country I would have a central gold reserve acting precisely as the Bank of England acts in London, and I would adopt the Canadian bank-note currency system with the privilege to all the banks of this country to issue their currency, which is nothing but another form of deposit. The point of difference is that these bank notes issued by the Imperial Bank of Germany become the reserves of all the banks in Germany, and that is exactly what these notes that you are going to issue here would become.

Senator HITCHCOCK. Then your idea is that the notes of the Reichsbank in Germany should not be used as reserves by the other banks?

Mr. FOWLER. Certainly not.

Senator SHAFROTH. The gentleman who preceded you said that under the German policy of not having them legal tender the gold standard had absolutely fallen down, and it was not until they were made legal tender by the act of 1911 that German banks got in good standing. That was the statement he made this morning.

Senator WEEKS. How could you adopt the note-issuing methods of Canada without adopting at the same time the branch-bank system?

Mr. FOWLER. The branch-bank system has nothing whatever to do with the currency system.

Senator WEEKS. But it has to do with redemption and distribution.

Mr. FOWLER. Nothing whatever. You can take a zone, like that one of Chicago, and those notes would be handled precisely in that zone as the bank notes are handled in Canada. And to prove that I will recall the Suffolk system, with 500 banks in New England, where there is not a single branch bank, so far as I know.

Senator WEEKS. There was not a branch bank?

Mr. FOWLER. No; but you had a complete currency system, with daily redemption in coin at Boston.

Senator WEEKS. But the territory covered by New England is comparatively limited. It is a question of territory and distribution and frequent points of redemption that have to be taken into consideration.

Mr. FOWLER. That is true, and I should say that in the United States there ought to be about 40 zones, and every one of those zones a perfect zone, like the New England system was.

Senator WEEKS. And I think there ought to be about 400. But I did not mean to disturb you.

Senator NELSON. But would you not have the banks provide the gold-redemption fund if they are granted? You would not throw that burden onto the Government?

Mr. FOWLER. Oh, no. Now, I will go on and finish, if you will allow me.

Recalling 1907, in our present apprehension we are apparently ready to adopt almost any nostrum that is brought forward, because we seem ready to believe that any plan that may be adopted can not bring greater evils than those from which the country is now suffering. Our present troubles, great as they are, are nothing to be compared with what they would be if the proposed measure should be passed. To-day the remedies are compartively simple and can be easily applied. Pass the proposed bill and the difficulties will be multiplied a hundredfold.

Certainly it must have been the result of appalling fright, profound ignorance, or amazing, yes, astounding cupidity, that led a number of bankers who had gone to Washington to get a slice of that $50,000,000 recently distributed to say that if Congress would reduce the reserve from 25 to 20 per cent in the reserve cities and from 15 to 12 per cent for the country bank they would not fight the pending bill, not waiving, however, their objection to its political control. How strange, how appalling, this act of approval was.

Gentlemen, the greatest danger to American banking to-day is that our average reserves, which are only 11 per cent, are all too low now. Again, if you include the savings-bank accounts they are reduced to a reserve of only 7 per cent.

Our average reserve for the whole country under no circumstances should fall below 20 per cent, but our credit facilities should have much greater play and ampler freedom. This, however, should not be done by capitalizing our bank capital, already burdened with all the insurance it should carry, and creating holding companies, the chief curse of our time, especially in the banking business, under the authority of the National Government itself.

The Bank of England is not a dumping ground for the commercial credit centering in London, although it is always in close touch with it.

I want to call your attention to what Mr. Warburgh said right on that point. Mr. Warburgh said:

> The business formerly done by central banks must be only a fraction of the aggregate discounting done by the general banks, banking firms, corporations, large and small, and in particular by foreign banks and governments.

It is doubtful if one-tenth of 1 per cent of the commercial credit sold in London goes to the Bank of England. This discount business is carried on by the great discount houses of London, whose special work it is to carry on this particular kind of business. As soon as acceptances become a part of our banking life there will spring up here as they have in London, in various sections of this country, similar institutions, with their own independent capital, carrying on iden-

tically the same business now being conducted by the great discount houses of London. But acceptances in this country can only become a feature of our banking business upon the condition that reserve be carried against them precisely as reserves are now carried against deposits or note issues, if we adopt the Canadian system of note issue. We must always keep in mind that we have our own peculiar problems to solve, and one of them is the fact that we have to-day here in the United States between 25,000 and 30,000 individual independent banks, whose action must necessarily be circumscribed by reserve limitations if they are to write acceptances.

Senator HITCHCOCK. Do I understand you to say that if banks are allowed to give acceptances they must maintain reserves against the acceptances?

Mr. FOWLER. Every one of them. It is a liability of the bank just as much as your note indorsed.

Senator HITCHCOCK. It is a contingent liability?

Mr. FOWLER. Of course.

Senator NELSON. On an accepted bill of exchange the party primarily liable is the acceptor. Until the drawee accepts the draft, he is not liable, but the moment he accepts it he is to be primarily liable. On a foreign bill of exchange the drawer of the bill is not liable until the bill has been protested and he has been notified. That does not apply to inland bills of exchange.

Senator HITCHCOCK. You think the gold reserve against acceptances should be of the same per cent as the gold reserve against deposits?

Mr. FOWLER. Absolutely.

Senator HITCHCOCK. Do you understand that the Federal reserve notes provided for in this bill are acceptable as reserves for national banks?

Mr. FOWLER. The bill does not provide they shall be, but there are 17,000 or 18,000 banks outside of the national system that will take it.

Senator HITCHCOCK. Do you think they should be accepted as reserves for national banks?

Mr. FOWLER. No.

Senator HITCHOCK. Have you read the bill in that particular, to ascertain whether it does authorize that or not?

Mr. FOWLER. I read it one time when it said it should not be for the national banks. I do not know whether this particular bill has it or not.

Senator SHAFROTH. I do not think the act as it passed the House contains any such provision.

Senator HITCHCOCK. It has been the general impression, but I am not able to find it in the bill. The general impression is that just as the notes of the Reichsbank of Germany are acceptable for reserves by other banks, so the notes of this bank are to be made acceptable.

Mr. FOWLER. Yes.

Senator NELSON. Unless by implication, it is not directly provided for in the bill.

Senator SHAFROTH. One of the very reasons why they urged the notes should be made legal tender was so they could be made reserves. But I am pretty confident it is not provided for in the bill.

Senator POMERENE. The statement was made that there should be reserves carried against those acceptances. What amount would you say should be carried as reserves?

Mr. FOWLER. The same as on deposits, or on the note issue. The bill provides that your acceptances shall be half your capital, and there it stops. But what earthly use would that be to a bank if it had $50,000 and could accept $25,000 if it is going to carry a reserve against acceptances? Their average liability will be the same and they can accept $100,000.

The amount of acceptances should bear no particular relation to the amount of capital as a limitation.

Again has it occurred to you that if you did not sacrifice all your liquid paper in a perfectly useless, senseless, and most expensive way as proposed by the administration, and had a system of true bank credit currency by which every bank was supplying to its customers, immediately and directly, as a part of their daily transactions, just as you give them a check book to use immediately and directly as transactions arise, you would have no trouble whatever, even under present conditions, to supply all the credit facilities for rediscounting that the commerce of the country now demands?

Mark this: On June 14, 1912—and by the way, I would like to remark here that this country has gone mad on some preparation for the discounting, as these facts prove—on June 14, 1912, the total amount of paper discounted or money borrowed by all of our 25,195 banks was less than $150,000,000, or less than three-fifths of 1 per cent of the total assets of the banks, which exceeded $2,500,000,000, and that on September 4, 1912, the total amounts discounted or borrowed for crop-moving purposes amounted to only $200,000,000, or only four-fifths of 1 per cent of the total assets.

Now, gentlemen, answer me this question. If your reserve city banks had not been asked by the country banks to ship them currency at all, simply because they could create their own currency by converting their deposits subject to check into bank notes without increasing their reserves one single cent and without increasing their liabilities one single cent, what part of the $200,000,000 borrowed last year do you think would have had to be borrowed?

All they would have had to do was to have converted a bank-book credit subject to check into bank-note credit and supply the people locally with their currency, just as in England.

Senator HITCHCOCK. Mr. Fowler, while it would do very well in times of peace, do you think on occasions of panic, when the depositors are demanding their money, that they will be satisfied to take the note of the bank any more than they would be satisfied to keep a deposit with the bank?

Mr. FOWLER. If you had what I propose, a central gold reserve of $1,250,000,000 or $1,500,000,000, they would never think anything about it at all.

Senator NELSON. Your theory is this, Mr. Fowler, as I understand you: If I go and give a bank a deposit of $10,000, and I say to the bank, "Give me credit on your books for $5,000 and give me $5,000 in your bills," I need that much?

Mr. FOWLER. That is right.

Senator NELSON. You put the two on exactly the same foundation?

Mr. FOWLER. Absolutely identical.

Senator NELSON. Of course, I either deposit my money or give my note to the bank—my commercial paper.

Mr. FOWLER. Anything.

Senator NELSON. And you have that there for my actual deposit of money, or you have my note, and you shift the credit on the books of the bank, and I can check against the other half or carry it away in bills in my pocket.

Mr. FOWLER. Absolutely. That is a perfect illustration. Now, let me answer Senator Hitchcock by an illustration. Canada has this exact system. Whenever a bank fails in Canada everybody hunts after these notes, because they draw 6 per cent interest and they know that inasmuch as they are a first lien upon the assets they are assured of 5 per cent, and they are the best thing they can get in Canada.

Senator NELSON. The notes of the failed bank?

Mr. FOWLER. The notes of the failed bank. They are sought after and held.

Senator HITCHCOCK. Then it is the insurance of the reserve fund in the hands of the Government you depend upon to give assurance to the people?

Mr. FOWLER. Together with the fact that they are a first lien upon all the assets.

Senator REED. How is that insurance fund created in Canada?

Mr. FOWLER. By the banks putting up 5 per cent of the notes they have.

Senator REED. That stands as a guaranty forever for the bank notes?

Mr. FOWLER. Yes.

Senator NELSON. My impression, Mr. Fowler, was—I may be right or wrong—that 5 per cent was not pooled, the funds which the banks put in.

Mr. FOWLER. They are pooled for the purpose of redemption. But, being a first lien, of course they are paid at once out of the bank's assets.

Senator BRISTOW. Now, Mr. Fowler, to get back to this illustration Senator Nelson suggested to you, the man that took away $5,000 worth of notes and deposited $10,000, or borrowed $10,000 on his note. Ordinarily, under our system, the bank can give you credit for $10,000, subject to check.

Mr. FOWLER. Yes.

Senator BRISTOW. He might take a credit of $5,000 and he might take $5,000 in the notes of the bank with him, and he would use those notes. Now, when and how would those notes be redeemed by this bank?

Mr. FOWLER. Of course you would have an organization that would provide for the redemption of these notes at every one of the natural commercial centers, like all the commercial zone centers in the United States, and over the banks' own counter, and they would be redeemed from them throughout the United States as and concurrently with checks and drafts, if they come in together, just as they do in Canada.

Senator BRISTOW. They are just handled as checks?

Mr. FOWLER. Absolutely the same thing. They are just the same, anyway, because a personal check is a check against a bank by an

individual, while the note is a check against the bank by the cashier of the bank. It is the same thing. One is simply current and passes around and the other passes by indorsement. That is the only difference.

Senator NELSON. One is redeemable in gold and the other not absolutely.

Mr. FOWLER. Ultimately it is.

Senator HITCHCOCK. Now, then, what restraint would there be on the bank to prevent an inflation of credit?

Mr. FOWLER. Ah, if he is a banker the inflation of credit never comes in on what he pays out, but it comes in if he grants a loan—if he says, "I will grant you a loan" he has created the credit, and that is just as much an inflation—I won't use "inflation"—that is just as much an expansion of credit, if it is subject to check, as if he put it all in notes, because it is nothing but a debt of the bank. It does not mean inflation or expansion to give notes instead of the credit of the banks. He probably knows if he makes a loan when he should not make it. It does not make any difference what form it takes.

Senator SHAFROTH. What check would you have on that?

Mr. FOWLER. Your intelligence; the banker's intelligence.

Senator SHAFROTH. You are going to rely on nothing except that if he makes the loan?

Mr. FOWLER. If you make a loan when a man comes to you and you should not make it, and you do make it, and you have made a mistake, it is wholly immaterial whether you put it on the credit side and check against it or whether you give notes. You have got to meet both.

Senator McLEAN. That same danger would be there in either case.

Mr. FOWLER. The same danger.

Senator BRISTOW. Just the same as if he gave it in credit.

Mr. FOWLER. Let me go back to that. I think it is well illustrated here. A bank note is a check against the bank, drawn by the cashier, and a check drawn by a man against the bank is a check against the bank just the same.

Senator SHAFROTH. There ought to be a gold reserve in back of each?

Mr. FOWLER. Absolutely.

Senator SHAFROTH. A certain percentage of each one.

Mr. FOWLER. Against the deposits and the notes?

Senator SHAFROTH. Yes.

Mr. FOWLER. Absolutely. They are the same thing.

Senator SHAFROTH. Now, Mr. Fowler, you stated a little while ago that there was about $20,000,000,000 of credits.

Mr. FOWLER. No; I didn't.

Senator SHAFROTH. Well, there is, is there not, about $20,000,000,000 of credits, all told?

Mr. FOWLER. If you will excuse me, I respect you very much; but do not interpolate that into this thing, and let me go along.

Pursuing this phase of the question a step farther, I want to call your attention to the statement of the national banks June 4, 1913—the latest statement—which discloses the fact that New England would contribute over $10,000,000 for the privilege of borrowing a little over $4,000,000 from the proposed Federal reserve bank; that

the eastern group of States would contribute $34,000,000 to borrow back $16,000,000; the middle group of States would contribute over $28,000,000 to borrow less than $8,000,000.

Senator NELSON. How do you limit the borrowing? By what rule?

Mr. FOWLER. I am discussing now——

Senator NELSON. Oh, excuse me.

Mr. FOWLER. I am discussing now the proposition that if the banks of this country could supply locally all the demands for currency it would reduce the rediscount to a minimum, and I have cleared that up, and now I am going to show how small the rediscount is in some parts of the United States.

Pursuing this phase of the question a step farther, I want to call your attention to the statement of the national banks June 4, 1913—the latest statement—which discloses the fact that New England would conribute over $10,000,000 for the privilege of borrowing a little over $4,000,000——

Senator HITCHCOCK (interposing). You contribute $10,000,000 to what?

Mr. FOWLER. To this banking scheme you have.

Senator NELSON. The bank reserve?

Mr. FOWLER. The central reserve bank, putting up the capital.

Senator HITCHCOCK. But are you not overlooking the fact that at present rediscount is more or less disreputable and the banks avoid it, whereas under the new system they are expected to resort to it more freely because it will be made reputable?

Mr. FOWLER. I think any student of the period of 1907 will say that we have expanded all that we ought to.

Senator HITCHCOCK. I agree with you there.

Mr. FOWLER. And I do not think we ought to facilitate expansion in this country beyond our present facilities.

Senator HITCHCOCK. I say amen to that.

Mr. FOWLER. Pursuing this phase of the question a step further, I want to call your attention to the statement of the national banks June 4, 1913, the latest statement, which discloses the fact that New England would contribute over $10,000,000 for the privilege of borrowing a little over $4,000,000 from the proposed Federal reserve bank; that the eastern group of States would contribute $34,000,000 to borrow back $16,000,000; the middle group of States would contribute over $28,000,000 to borrow less than $8,000,000; the Pacific States would contribute $8,750,000 to borrow less than $3,500,000; the Western States would contribute $5,800,000 to borrow $2,300,000; while the cotton growing States would contribute about $13,000,000 to borrow $25,000,000, or a total of only $73,000,000. If the State banks had been included probably this amount would have been about double, which would have brought it up to the figure of last year.

Gentlemen, what do you think would become of this $73,000,000 of rediscount or borrowed money if the banks of the country could have created their own currency precisely as the banks are doing to-day in Canada? Would it not practically disappear from the bank statement? Could you not easily manage the balance?

The rediscount of the present banking system, gentlemen, which I presume is the last one, by Senator Nelson, shows rediscount and borrowed money of $108,000.000. I will print with my remarks a statement here showing exactly what the different States would have to

contribute for the amount they are now borrowing, through rediscounts or otherwise.

(The statement referred to is as follows:)

[From The Financier, New York, N. Y., July 26, 1913.]

Table showing, by States, money borrowed by national banks on Sept. 6, 1904, the whole number of banks, the number of banks borrowing in each State, and percentage of these; 10 per cent of the capital stock in each State, and the excess or deficit of this 10 per cent over the amount of money borrowed.

[000's are omitted.]

	Number of banks.	Banks borrowing.		Amount borrowed.	Capital stock.	Excess of capital over borrowing.
		Number.	Per cent.			
Eastern States:						
District of Columbia	12	....	....	....	$378	$378
New York	367	25	6.80	$1,217	14,352	13,135
Pennsylvania	640	45	7.00	2,502	9,513	7,011
New Jersey	135	12	9.00	356	1,796	1,440
Delaware	24	3	12.50	56	227	171
Maryland	88	16	18.20	1,648	1,649	1
Total	1,266	101	8.0	5,779	27,915	22,136
New England States:						
Vermont	49	1	2.00	20	623	603
Rhode Island	28	1	3.60	35	917	882
Connecticut	80	6	7.50	490	1,994	1,504
New Hampshire	56	5	9.00	48	538	490
Maine	84	9	10.70	255	1,014	759
Massachusetts	220	31	14.00	1,622	6,410	4,788
Total	517	53	10.3	2,470	11,496	9,026
Pacific States:						
Idaho	23	....	....	....	107	107
Alaska	1	....	....	....	5	5
Oregon	39	2	5.10	109	274	165
Utah	15	1	6.00	15	185	170
Washington	35	4	11.40	49	370	321
California	75	10	13.30	232	1,796	1,564
Arizona	12	3	25.00	27	65	38
Nevada	2	1	50.00	70	28	[1] 42
Total	202	21	10.4	502	2,830	2,328
Middle States:						
Illinois	324	7	2.16	171	4,881	4,710
Indiana	175	4	2.29	55	1,858	1,803
Michigan	88	6	6.82	77	1,273	1,196
Wisconsin	114	8	7.00	111	1,350	1,239
Missouri	93	8	8.60	278	2,352	2,074
Ohio	334	29	8.68	1,003	5,237	4,234
Minnesota	215	57	26.51	700	1,769	1,069
Iowa	269	81	30.11	1,414	1,705	291
Total	1,612	200	12.40	3,809	20,425	16,616
Western States:						
Montana	27	2	7.40	36	280	244
Nebraska	147	12	8.16	158	1,081	923
Kansas	161	16	10.00	232	1,073	841
Wyoming	19	2	10.52	22	108	86
Colorado	60	8	13.33	78	589	511
South Dakota	64	9	14.06	66	250	184
New Mexico	21	6	28.60	90	129	39
North Dakota	83	42	50.60	809	305	[1] 504
Total	582	97	16.66	1,491	3,815	2,324
Southern border States:						
Virginia	80	13	16.25	464	778	314
West Virginia	76	14	18.42	370	629	259
Tennessee	62	13	21.00	1,050	745	[1] 305
Kentucky	115	25	21.74	840	1,429	589
Total	333	65	19.52	2,724	3,581	857

Table showing, by States, money borrowed by national banks on Sept. 6, 1904, etc.—Continued.

	Number of banks.	Banks borrowing.		Amount borrowed.	Capital stock.	Excess of capital over borrowing.
		Number.	Per cent.			
Cotton-growing States:						
Oklahoma	95	20	21.05	$235	$362	$127
Florida	26	7	26.92	134	255	121
Arkansas	23	8	34.78	221	238	17
Texas	414	203	49.03	7,256	3,090	[1] 4,166
Indian Territory	107	54	50.46	940	468	[1] 472
Alabama	52	30	57.70	2,000	555	[1] 1,445
North Carolina	44	26	59.00	1,034	370	[1] 664
Louisiana	35	23	65.70	1,793	430	[1] 1,363
Mississippi	24	16	66.66	1,334	282	[1] 1,052
South Carolina	23	19	82.60	2,224	293	[1] 1.931
Georgia	54	45	83.33	3,146	595	[1] 2,551
Total	897	451	50.30	20,317	6,938	13,379
Hawaii	2	1	50.00	253	53	[1] 200
Porto Rico	1				10	10

[1] Deficit.

SUMMARY OF UNITED STATES, JUNE 4, 1913.

	Number of banks.	Per cent of borrowing to capital.	Amount borrowed.	10 per cent of capital stock.	Excess of capital over borrowing.
Hawaii	4			$61	$61
Middle States	2,063	2.70	$7,690	28,242	20,552
Pacific States	515	3.95	3,433	8,750	5,317
Western States	955	4.00	2,359	5,797	3,438
New England States	453	4.10	4,240	10,168	5,928
Eastern States	1,653	4.70	16,066	33,938	17,872
Southern border States	500	6.83	4,002	5,860	1,858
Cotton-growing States	1,330	27.27	35,112	12,875	[1] 22,237
Total	7,473	6.90	72,902	105,691	32,789

[1] Deficit.

SUMMARY OF UNITED STATES SEPT. 6, 1904.

	Number of banks.	Banks borrowing.		Amount borrowed.	Capital stock.	Excess of capital over borrowing.
		Number.	Per cent.			
Middle States	1,612	200	1.37	$3,809	$20,425	$16,616
Pacific States	202	21	1.77	502	2,830	2,328
Eastern States	1,266	101	2.00	5,779	27,915	22,136
New England States	517	53	2.15	2,470	11,496	9,026
Western States	582	97	3.90	1,491	3,815	2,324
Southern border States	333	65	7.60	2,724	3,581	857
Cotton-growing States	897	451	29.28	20,317	6,938	[1] 13,379
Hawaii	2	1	47.70	253	53	[1] 200
Total	5,411	989	4.85	37,345	77,053	39,708

[1] Deficit.

Table showing, by States, money borrowed by national banks on Sept. 6. 1904, etc.—Continued.

SUMMARY OF THREE PERIODS COMPARED.

	Number of banks.	Per cent of borrowing to capital.	Amount borrowed.	10 per cent of capital stock.	Excess of capital over borrowing.
Sept. 6, 1904	5,412	4.85	$37,345	$77,063	$39,718
Sept. 4, 1912	7,397	7.87	82,360	104,601	22,241
June 4, 1913	7,473	6.90	72,902	105,691	32,789

Mr. Fowler. I call attention to what I said, that in 1906 I introduced a bill in the fall of 1906 to anticipate the panic that I was confident would come, providing for $250,000,000 of credit notes. The amount of certificates in one form or another, cash, checks, etc., issued in 1907 was stated by the Comptroller of the Currency to be $248,279,700. Now, gentlemen, had you met that panic that year by temporary facilities amounting to $249,000,000, and you have a banking capital in the United States, including the State banks, amounting to $2,000,000,000, and they had the right to supply their currency locally, is it not perfectly evident that you would not have had to meet this little sum of $279,000,000 which they met in those forms of credit?

Senator Hitchcock. Mr. Fowler, Senator Bristow has just called my attention to the fact that in Canada, at the present time, under this currency system of which you approve, there is considerable complaint because the borrowing class find difficulty in securing bank currency when desired.

Mr. Fowler. The reason for that is the objection that I think is a good one to branch banking as against individual, independent banking, that applies itself to each individual through some man who knows his condition and circumstances as against the manager of the branch bank. That is the point.

Senator Nelson. I think that is one reason, and I think there is another reason. There has been an excessive boom and expansion in that country, an unusual expansion, and I think the banks there are hedging for the purpose of preventing undue inflation. I do not think it is a lack of funds on the part of the banks, but they want to curtail their loans, for they are afraid of undue inflation. They have been having what I would call a state of boom there for two or three years.

Mr. Fowler. The average amount of bank notes in the hands of the people in Canada is approximately $15 per capita, and the average amount of currency in the hands of the people of the United States, outside of their subsidiary coin and the $1 and $2 bills is about $15 per capita. If it is proposed to furnish the American people $15 per capita in the near future, or approximately $1,500,000,000, it is interesting to inquire how much commercial paper must be discounted each year to keep it afloat.

Now, I want to call your attention to a comment made by Mr. Warburgh on this point, because I made this statement when this bill was first introduced, and I now find myself supported by his own con-

clusion. Mr. Warburgh says in his article in the North American Review:

> It follows that, in addition to their own capital and part of their deposits, the Federal reserve banks would have permanently invested about $800,000,000 in commercial paper, and to this we would then have to add the extraordinary and seasonable demand for which $500,000,000 were estimated to be issued, a total of about $1,300,000,000 to $1,500,000,000.

Senator Hitchcock. That is the flexibility from seven or eight hundred million up to twice that amount.

Mr. Fowler. I was reading it for the purpose of showing that Mr. Warburgh agreed with me it would require a discounting of paper that would produce currency of $1,500,000,000—the currency under this bill.

Senator Hitchcock. It would only produce currency to take the place of the national bank currency.

Mr. Fowler. Yes; it would only produce it to take the place of the national bank currency, as this regional reserve system contemplates.

We have already discovered and observed that it would take $800,000,000 to keep $100,000,000 alive. Therefore, it will require a rediscount of 15 times $800,000,000, or $12,000,000,000 every year, $1,000,000,000 every month, to supply us with the necessary amount of currency, provided of course that the average life of the paper turned in is 30 days, which is just half that of the maximum life of the paper to be accepted, which is 60-day paper.

They have since increased this to 90 days.

Gentlemen, is this not a most appalling figure? Is it not enough to put any sane man upon inquiry and cause him to hesitate, compel him to halt, before he commits this country to an impossible, as well as a most absolutely useless and most wasteful task—even, if possible, especially since Canada is furnishing her people with $15 per capita of the best currency in the world without selling a single dollar's worth of commercial paper? As you will remember, we have already pointed out that a bank-credit currency is a banking deposit, therefore let me ask you what effect in your judgment it would have upon the rates of interest to deposit $1,000,000,000 with the banks of the United States instead of tying up $1,000,000,000 of your best and most liquid assets, and constantly keeping that amount rediscounted for the purpose of supplying the country with an adequate amount of currency? Think this over and don't stop thinking it over until you know.

What we want in principle—I may now answer some question that has been asked about the system—what we want in principle and practice is to combine the Bank of England, the most perfect type of a single central gold reserve, illustrated by the reserves that are held by clearing houses and the Canadian bank-note system, which is a pure bank-credit currency, and is, as I have already pointed out, of American origin.

But, gentlemen, to do what I have here suggested will only be the adoption and adaptation of the very things that we have already had in our own experience, demonstrated to be sound in principle and most efficient in practice.

As I have already pointed out, a bank-credit currency was proved and tested in 12 different States before the war. A uniform national currency was developed as a result of the war. The most highly

organized American clearing house in the natural development of our business necessities, and furnishes us with everything that is essential to an American banking system.

These elements having been all systematized and brought together, and all our clearing houses at the natural commercial centers having been coordinated and unified into one system, we shall have the most economical, the most efficient, the soundest, and the most powerful banking system in the whole world and distinctly American from beginning to end, as it will have been drawn entirely from American experience, and yet would be founded upon the eternal principles of banking economics and buttressed by American experience of more than a hundred years. It will give us a single central gold reserve of $1,250,000,000.

Senator HITCHCOCK. How did you figure that gold reserve? How do you get that amount?

Mr. FOWLER. I would have all of the banks of the United States furnish——

Senator NELSON (interposing). Their quota?

Mr. FOWLER. Their quota—every bank furnish its part for the pool, precisely as the banks in Chicago have put their money at the clearing house, and as to-day the banks are now carrying $200,000,000 at their clearing houses.

Senator HITCHCOCK. What per cent of their deposits would they have to deposit thus?

Mr. FOWLER. You mean of the $1,250,000?

Senator HITCHCOCK. Yes.

Mr. FOWLER. It would amount to about 7 per cent.

Senator HITCHCOCK. The reserve amount deposited in gold at some central point?

Mr. FOWLER. Together in one common pool.

Senator HITCHCOCK. For the purpose of redeeming notes?

Mr. FOWLER. No.

Senator HITCHCOCK. For what purpose?

Mr. FOWLER. For the purpose of standing as a monitor in the United States over all the bank credits, to control the movement of gold to and from the United States, and supply that gold to each commercial center according to its needs for additional reserves.

Senator HITCHCOCK. Suppose a bank failed to meet its note; would it be paid out of that gold reserve?

Mr. FOWLER. Why the note, in the first place, if a bank failed, would be paid out of the 5 per cent guarantee fund of $75,000,000, and then it would be recouped back into the fund out of the first assets that the bank turned into cash, just as it is in Canada.

Senator NELSON. You would have that 5 per cent redemption fund in gold?

Mr. FOWLER. Yes.

Senator NELSON. And you would have the reserve in gold?

Mr. FOWLER. Yes, sir.

Senator HITCHCOCK. How would the depositors be paid if a bank failed?

Mr. FOWLER. Just as they are now.

Senator HITCHCOCK. Then, I do not see what practical use there is for the $1,000,000 if you do not pay bank notes with it and you do not pay depositors with it.

Mr. FOWLER. I will tell you just what it would be used for. You would have a board of directors (I won't go into the complications), you would have a board of directors sitting here in Washington. One man was from New Orleans. Along in May or June they would sit upon the question of how much gold it would take to help move the cotton crop, and if they said $25,000,000 or $50,000,000, it would come out of this $1,250,000,000 for proper commercial credits. Suppose they wanted $50,000,000 or $75,000,000 for Kansas City——

Senator HITCHCOCK. How would that be taken out of the fund and sent to New Orleans or Kansas City?

Mr. FOWLER. Virtually it would be carried all the time at these commercial centers throughout the United States as a part of this fund, and to be used by them under instructions.

Senator REED. How would they get it out, wherever it was in? What would they put up for it?

Mr. FOWLER. Commercial paper of the proper kind.

Senator REED. For the gold?

Mr. FOWLER. Yes; and then the gold would come into their reserves.

Senator REED. Of course, the certificates would be just as sound as gold.

Mr. FOWLER. Of course.

Senator HITCHCOCK. Would the Government be in the banking business under those circumstances?

Mr. FOWLER. Not to the extent of one single one.

Senator HITCHCOCK. These officials would be Government officials?

Mr. FOWLER. No; not in the management of it, excepting—I have some comments to make afterwards, but I do not want to go into that question now.

Senator NELSON. Where would you actually keep the gold? Here in Washington in the Treasury?

Mr. FOWLER. Not in the Treasury, but at the center here in Washington, theoretically—all here and under the control of the central body here.

Senator NELSON. You would try to keep it here?

Mr. FOWLER. Yes.

Senator NELSON. And you would make these bills payable here, then, out of your reserves?

Mr. FOWLER. No, sir. They would be payable at the banks and at these commercial centers all over the United States. Nothing would be paid out of this fund here.

Senator NELSON. And would be payable in gold?

Mr. FOWLER. Yes; and paid at each commercial center, in each commercial zone, in its own organization.

Senator NELSON. Then that commercial center or commercial zone would have to have a supply of gold to meet it?

Mr. FOWLER. They would have to carry that gold reserve for all their practical needs.

Senator SHAFROTH. In addition to the $1,250,000,000?

Mr. FOWLER. Yes.

Senator HITCHCOCK. Mr. Fowler, what effect on prices would this increase in the volume of the currency have?

Mr. FOWLER. Excuse me, will you——

Senator HITCHCOCK. I would like to have your opinion on that.

Mr. FOWLER. You are going too far afield. That is a very abstract question.

Senator HITCHCOCK. Oh, no; it is not an abstract question.

Mr. FOWLER. Oh, yes. That is a great long question. I do not think the currency as a question, apart from our bank-credit currency, has any effect on it at all as distinguished from any other bank credit. I think prices increase from inflation of credit, and if that is one part of it, of course that may affect prices.

Senator HITCHCOCK. Does the increase in the supply of gold affect prices?

Mr. FOWLER. I do not think so, because of this fact, and I have tried to follow it with some care: The amount of gold, in proportion to the bank credit, in 1890 was greater than it is to-day, and the bank resources have increased very much faster than the amount of gold in the world has increased, which shows that if the gold is diminished by its use as reserve, it does not affect prices.

Senator HITCHCOCK. Now, I want to ask you whether, if there should be established in the Treasury of the United States a division of currency and, say, 40 or 50 subtreasuries should be located throughout the United States, it would, in your opinion, be practicable for the United States to discount or make advances to national banks to the extent of, say, 75 per cent of their capital stock?

Senator NELSON. In paper currency?

Senator HITCHCOCK. No; United States notes secured by 40 per cent gold reserve.

Mr. FOWLER. I do not.

Senator HITCHCOCK. Why not?

Mr. FOWLER. Well, I am coming to a discussion of some of those things.

Senator HITCHCOCK. Won't you come to it right now? You have postponed those things so much, and this is a question we have put to all witnesses. The United States can easily establish such a fund by selling bonds, and we know that a 40 per cent gold reserve is adequate for the United States. We know from the testimony we have had here that the banks of the country would only at certain seasons of the year have to borrow for 60 or 90 days or 4 months an amount of money just as now and rediscount their notes, and we would like to know why it would not be possible for the Treasury of the United States to supply that currency direct to the banks, having the interest which they derived from the banks applied to pay the interest upon the bonds outstanding which were sold to produce the gold reserve.

Mr. FOWLER. In the first place the Government has no resources whatever. It has only the power to tax the people.

Senator HITCHCOCK. No; I am providing a gold reserve by selling bonds, and I have provided in this hypothetical case that the banks must pay the Government interest to pay interest on the bonds.

Mr. FOWLER. The point is whenever the Government becomes involved in any business transactions, or its credit becomes doubted as it did in 1890 when we were issuing $50,000,000 of gold certificates a year, the people begin to doubt whether the Government can carry your system of expansion of credit on, and the result is they have got to maintain the banking credit of the United States upon the gold basis and the load is in proportion to their resources. While, for

the maintenance of $25,000,000 of credit for one form or another, the money represented by the bank resources rests upon the assets which the bank has with which it is being paid every day in the year. You have the resources without meeting any responsibility whatever.

Senator HITCHCOCK. Now, a few moments ago you said the rediscounts by the banks in the United States amount to only about $250,000,000.

Mr. FOWLER. What is that?

Senator HITCHCOCK. You said the rediscounts only amounted to about $250,000,000?

Mr. FOWLER. Oh, yes.

Senator HITCHCOCK. Assuming that that is——

Mr. FOWLER (interposing). About $200,000,000.

Senator HITCHCOCK. I am going to make it a little larger. Assuming that is correct, and that the banks called upon the Treasury for, we will say, $300,000,000, that they might call upon the Treasury for. You think it would strain the credit of the United States to procure a 40 per cent gold reserve from $300,000,000?

Mr. FOWLER. What would you do with these notes you issue as they go in the reserves of the banks?

Senator HITCHCOCK. That is a detail I have not come to consider. I am asking you as to the proposition.

Mr. FOWLER. I want to ask you that question.

Senator HITCHCOCK. I do not want to answer that question; you do not need to cross a bridge you have not come to. Here is the Government of the United States, whose Treasury Department is now periodically examining all these national banks. Its inspectors go into those banks two or three times a year. It practically testifies to their solvency. They could, through the subtreasuries, make these advances to the banks and have all the knowledge in each subtreasury that the bank inspectors obtain on their visits during a year. Why could not the Treasury under those circumstances make those advances to the banks, and direct the supply of currency directly to the part of the country that needed it?

Mr. FOWLER. They can not have any such intimate knowledge of the situation, the circumstances and conditions, and it would be a poor way of handling the business.

Senator HITCHCOCK. You have said the aggregate amount which the banks require does not exceed $250,000,000 a year, and the testimony before this committee is that the maximum the banks require is somewhere in the neighborhood of one-fifth of their capital stock. Suppose we said that no bank could borrow of the United States an amount greater than 75 per cent of its capital stock, and that the United States should hold a first lien on its assets for the amount borrowed, and it should pay a rate of interest that should be higher for four months than for three months, and higher for two months than for one month, in order to produce the payment of the loan; why would that not result in supplying directly from the Treasury the currency the banks needed when they needed it?

Mr. FOWLER. The amount of currency is about $15 per capita.

Senator HITCHCOCK. I am taking a case where we are not disturbing the present supply at all.

Mr. FOWLER. That is not the currency that these people wanted, that $250,000,000, not necessarily.

Senator HITCHCOCK. What is that?

Mr. FOWLER. Nobody could tell just what it was that they wanted. One man goes in and asks for a credit on the books; and another man goes in and asks for credit on the books and New York exchange, and another fellow wants the currency. It is a thing that is as delicate as every individual transaction.

Senator HITCHCOCK. Can you not imagine a man going into a bank, whether he asks for credit or for currency, being dissatisfied with the credit, and wanting the currency? Would not the currency perform every function of credit?

Mr. FOWLER. No; it does not, because a man might want a deposit in order to check against it. What is the use of starting out and adding to the difficulties we already have? Instead of having, in my judgment, another dollar of the United States, I would pay off all we have, and put the United States Government in the same position in the world as New York City is, as Chicago is, and as Illinois is, so that in case of war we could sell its credit at the lowest rate of interest, and not have this credit involved in the commerce of the country.

Senator HITCHCOCK. Your objection would not be that it would not supply the needs of the banks, but that it might embarrass the United States Government?

Mr. FOWLER. Both.

Senator HITCHCOCK. I want to confine it to the needs of the banks. Explain why a country bank would not be satisfied with being able to get currency direct from the United States Government, just as it now gets either a credit or currency from a central bank.

Mr. FOWLER. You have 7,000 national banks, and you have 18,000 or 20,000 State banks and you have many, many thousand of depositors, and these demands come up in a million forms. When you are dealing with 7,000 banks you do not get anywhere. It is not adapted to the needs of the commerce of the United States at all.

Senator HITCHCOCK. The Treasury is already dealing with those 7,000 banks.

Mr. FOWLER. In what way?

Senator HITCHCOCK. It is receiving their bonds, it has issued currency to them, it sends an inspector to them at least twice a year, and requires a report from them four times a year.

Senator SHAFROTH. And requires 5 per cent reserves.

Senator HITCHCOCK. The Treasury has more dealings with them than any other agency.

Mr. FOWLER. But those banks are only one-third of all your banks.

Senator HITCHCOCK. I am talking about the national banks. Suppose we provided additional agencies for the national banks; if the State banks found it advantageous to do so, they could nationalize.

Mr. FOWLER. I think it is an economic blunder. I think it is a practical mistake.

Senator HITCHCOCK. Would it not meet the needs of the banks?

Mr. FOWLER. I do not think so.

Senator HITCHCOCK. Will you explain to me why the banks—say at Omaha, the town I live in—would not be satisfied to secure that currency from the subtreasury at Omaha when they found a need for additional funds.

Mr. FOWLER. I suppose they would rather get it from the United States than not have it at all.

Senator HITCHCOCK. Why would they rather have it from New York than from the United States?

Mr. FOWLER. I do not know that those particular banks would have any particular choice. We are dealing with a very much greater question than the matter of whether a bank likes it or not. It is not a question of any importance to ask whether a bank would just as leave get it from the United States as from New York.

Senator HITCHCOCK. We are trying to satisfy the bank, so that the bank may satisfy its customers. If you are unable to point out wherein the bank would be dissatisfied, you must be able to point out why this method would not answer the demand.

Mr. FOWLER. Not at all. There are a great many men who to-day think that these notes ought to be made legal tender.

Senator HITCHCOCK. I am asking you as a practical man, not only as a statesman but as a banker, and you ought to be able to show if there is a real objection, why this would not reach the needs of the bank which needed rediscount at a certain season of the year.

Mr. FOWLER. I do not say that the bank, if it wanted to borrow $10,000, would not have its needs met if it got $10,000 of notes. I do not mean to say that in that case that bank would not get what it needed.

Senator HITCHCOCK. If all the banks got what they needed, why would not the problem of additional currency be solved?

Mr. FOWLER. That brings up the whole question of putting the Government into this whole thing. That particular bank might be satisfied, but it would not be supplied at the time and in the way, in the definite way, it ought to be supplied.

Senator HITCHCOCK. The subtreasury would be located right there and they could be located as near the place as they were needed, and that could be arranged as well as with any central organization. Why would it not be as definite?

Mr. FOWLER. If you can locate it wherever it is necessary so far as getting the money is concerned, you probably could supply them, but back of all that is the great fundamental condition of the United States Government issuing a single note of any kind.

Senator HITCHCOCK. Under this bill the United States Government is going to issue notes. I am thinking of a substitute for this bill.

Mr. FOWLER. Do you assume that it is right because they are going to do it?

Senator HITCHCOCK. I assume it is decreed the Democratic Party is against bank notes, and I expect the Democratic Party, being in power, will provide for Treasury notes.

Mr. FOWLER. So much the worse for the Democratic Party.

Senator HITCHCOCK. I am asking you why those United States notes should not be issued from the Treasury direct to the bank instead of being issued through an intermediary.

Mr. FOWLER. God forbid that I should attempt to analyze your proposition.

Senator HITCHCOCK. I do not want it to be designated as my proposition. I am only suggesting it tentatively, to see what they will do about it.

Mr. FOWLER. It will give us a single central gold reserve of $1,250,000,000, not a central reserve of chips and whetstones, a reserve of wind and water, not a reserve of debts but of gold, gold I say by the control of which we can hold or bring to this country at will all the gold we shall need through a price placed upon gold, not a price upon commercial credit, which should always be adjusting itself to all the ever-varying conditions of trade everywhere throughout the United States as to the true and natural check, balance and regulator of business. This would not mean a central bank but precisely the same kind of a reserve for the whole United States that many of our clearing houses are now carrying with its use correspondingly broadened and enlarged to meet the needs of the times in the development of trade and commerce.

Gentlemen, to me your duty is plain, because the one single essential to such a sound public opinion as will justify wise and conclusive action can only come after a campaign of education upon the primary principles upon the very A B C's of this great question. This nation-wide education is not only essential to wise and conclusive action, but is also essential to guarantee permanent conditions and that degree of acquiescence which can come alone through a preponderating judgment of the people, and a tradition of sound learning upon this question.

It is your duty to demand delay! delay! delay! It is your duty to force discussion, discussion, discussion, until all these fatal fallacies are eliminated, because if this is not done now they will remain to plague us at a most inconvenient time in the future.

Let us begin at the very bottom and press the discussion everywhere.

The people must talk about this question until they know: What money is. What true reserves are; what amount of reserve should be held; how reserves should be held. What a true bank currency is: how it is created; what its functions are. What a bank is; what a bank should do; what its functions are.

Now, I am going to come to a discussion of the bill. In connection with that I have here a letter which illustrates, I think, the attitude of any bank in the country corresponding to the bank from which this letter comes. This letter was handed to me yesterday, and I am going to read it, and then pass to some other points [reading]:

I don't see how any banker with good sense could think the proposed currency bill fine. I don't know what it will do to you central bankers, but it will put the country national bank out of business. Take us as an illustration, and we are larger than a majority of the country national banks, with our $150,000 capital and $1,000,000 of deposits. To carry on our business we have to have in our vaults about $75,000—at Jacksonville about $25,000 and $50,000 in Philadelphia or New York. The regional bank will not enable us to cut down these amounts one penny. We have to have about 20 per cent in cash and balances in order to collect our out-of-town checks and be able to pay the checks on this bank as presented and care for our customers.

In our territory we are the only national bank, and yet there are 21 State banks, trust companies, and two savings banks. If the national bank act offers so little now, what will it offer under the new law?

First. We will have to buy $30,000 (20 per cent of our $150,000 capital stock) in regional bank stock limited to 5 per cent dividends. We can loan this money here or almost anywhere in the South at 7 and 8 per cent. In loaning it locally you know we can get good accounts by reason of the accommodations extended customers.

Second. We will have to carry a deposit of $50,000 (5 per cent of our $1,000,000 deposits) with this regional bank, and that without receiving any

interest for it. The central banks to-day pay 2 per cent, and most of the southern centers pay 3 per cent.

Third. We can not reduce one penny the amount of cash balance we have to carry at certain points to pay checks drawn on us and collect checks deposited by our customers.

In other words, this $80,000 which we have to tie up in the regional bank is really that much out of our capital stock. Instead of having $150,000 capital we will only have $70,000.

As this $80,000 is worth 8 per cent to us, or $6,400, we will have to pass up that amount if we stay in the national banking system.

Fourth. We are to remit for all clearing checks at par. This means another loss of $6,000 to $7,000. It actually costs us—clerk hire, stationery, shipments of currency, etc.—about $500. Then, instead of being out $6,400, we will be out between $12,000 and $13,000, or 6 per cent, on our capital stock just to be able to hang a sign out "National" bank.

What is all of this for? Just to be able to borrow a little money. I have been in banking 15 years and have always been able to borrow such money as we needed from New York—good times and bad. In 1907, in the height of the panic, we experienced no trouble borrowing $50,000 from the National City Bank of New York, who charges us interest at the rate of 6 per cent per annum.

Now, let us see about borrowing money from this regional bank. They will take certain commercial paper and high-grade bonds, I believe. Let me tell you something. The average country banks' loans are to farmers and small traders—perfectly good, but not of high ratings that would be required—the country bank has little or none in commercial paper and the same of high-grade bonds, so what can they expect from the national bank?

Since we have been a national bank we have actually lost nearly $8,000 in premiums on Government bonds purchased and deposited to secure circulation. This is a lot of money for a country bank to lose and is three times the amount of money we have lost since organization in 1902 in loans and investments.

Recently we were designated a regular depositary and allotted $10,000, but the Secretary required $7,000 in bonds of Hawaii, the Philippines, and Porto Rico, and Panamas, but we felt sure these bonds were selling on an artificial market, much like Government twos; we declined to buy $7,000 of the bonds named and thus secure the $10,000 deposits. We offered to deposit municipal bonds that were acceptable to the postal savings trustees, but they would not accept them. Evidently the Secretary of the Treasury's idea was to stimulate the market for a certain class of bonds, and that at the expense of the bonds.

We have written our Senators about the proposed currency measure. The politicians know how to run the country, or think they do, and what bankers say don't go.

There is some consolation in the fact that our State legislature has just adjourned and will not meet for 10 years—the hysteria of Bryan guarantee of bank deposit has exploded—a State bank charter only costs $30, and if this proposed currency measure goes through we will write out the "First National Bank" and write "The First State Bank" and continue at the same old stand. We will have lots of company in changing charter—no doubt of that in my mind.

I wrote Uncle Tip to-day to point out to me some of the good features of the proposed bank bill. If he will think it over he will be convinced that a country bank can't be run along safe lines and make a dividend for the stockholders under the proposed currency measure. I do not know how the city banks will fare; maybe they can figure out some way to run if they think the measure too oppressive. I know how we can get out whole, by changing over to the State bank system, which is as good, if not better, than the present national banking system anyhow.

Senator SHAFROTH. Do you not recognize in that that he puts all the objections and does not give a single benefit which may come from going into the system? He says that in the first place 20 per cent is required of him. That is not the fact. Ten per cent in cash is all that is required. He figures on a 20-per cent basis, in the first instance. You will find that is his criticism. Now, as to the reserves, he figures that there shall be reserves to the extent of 20 per cent,

he counts that 20 per cent all the time, no matter whether this bill goes into effect——

Mr. FOWLER (interposing). He says 5 per cent.

Senator SHAFROTH. Twenty per cent is what he says, I think.

Mr. FOWLER. He says 5 per cent of a million must be put up.

Senator SHAFROTH. That is, on the circulation?

Mr. FOWLER. That is of his deposits. He says he has a million of deposits and says he will have to put up 5 per cent with the regional reserve bank.

Senator SHAFROTH. He puts up more than that—yes; 5 per cent; that is right. Five per cent is put up.

Mr. FOWLER. That is $50,000.

Senator SHAFROTH. He has to keep in his vaults $60,000 in cash, and he has got to put in other banks, he has got to put up 9 per cent, and 9 per cent would be $90,000. That is what he puts up now. There is an entirely different phase to it when we consider that. He puts up now $140,000, whereas, under the other system, he gets $30,000 less, because his reserves are reduced from 15 per cent to 12 per cent. If this capital is worth 8 per cent, calculate his 8 per cent on $30,000 and you will see he has a pretty big profit in that by going into the scheme.

Mr. FOWLER. I simply put that letter in as a curiosity, not that I approve it as the expression of one country banker.

Now, I want to call your attention, if I may, to South Dakota, and certain facts about South Dakota as illustrating the desirability for all our country that lies in the agricultural regions having a credit-currency system. The capital stock of the national banks of South Dakota is $4,235,000. The surplus is $1,331,000, and the circulation there is $3,300,000. If you will take Boston as illustrating the difference between the needs of currency in the country and in cities, you will find that Boston has $28,000,000 of capital and $20,000,000 in surplus, in round figures.

Senator POMERENE. In the national banks?

Mr. FOWLER. In the national banks, making $48,000,000, with a circulation of only $10,000,000; or less than 25 per cent of capital and surplus.

Senator NELSON. South Dakota has a large circulation in proportion to capital?

Mr. FOWLER. Fifty per cent. The point I want to bring to your attention is this, that if the banks of South Dakota had the right to issue credit currency they would be all right to supply their people with $4,000,000 of currency at a cost to the banks of South Dakota of 15 per cent reserve. Four million dollars is the amount of their capital. That would be just one-sixth of what it would cost the people of South Dakota to buy their currency at par and turn over commercial paper, provided they had any commercial paper at all, which they have not.

Now, in Boston or any other city their credit in the form of deposits costs them the cost of reserves. Why should not all the agricultural regions of the United States get their currency just as cheap as the centers get their credit, which is in the form of deposits?

Now, I object to certain features in this proposed measure. I object to the Federal reserve board, which is created on page 17 of the bill. I do not think the officers of this Government, the Secretary

of the Treasury, the Secretary of Agriculture, or the Comptroller of the Currency should have anything to do with the management of a banking system. In the first place, they are preoccupied with their own business. I think that the Secretary of the Treasury and the Comptroller of the Currency should be in close touch with any central organization.

In the second place, I think that if you follow out this organization you will find that it is practically under the control of the Secretary of the Treasury. On page 18 you find these words:

The manager of the Federal reserve board, subject to the supervision of the Secretary of the Treasury and Federal reserve board, shall be the active executive officer of the Federal reserve board.

Now, the Secretary of the Treasury is the officer of the President. He is his official representative.

Now, again, on page 19, it says:

The Secretary of the Treasury shall be ex officio chairman of the Federal reserve board.

And on page 20 it says:

The chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general direction of the Secretary of the Treasury, acting as the chairman of the Federal reserve board.

Now, the chairman of a Federal reserve bank board can be removed, and therefore practically the influence of the Secretary of the Treasury runs through it all. He is the dominating force of the whole situation. And that goes so far as to remove class B entirely. When you get back to it, the Secretary of the Treasury is the man; he is the single controlling force through it all. Everybody will recall that when Mr. Chase was Secretary of the Treasury he was a pretty live candidate for the Presidency, and he was gotten out of that business by Uncle Abraham. I have known some Presidents, and I have never known a President yet, and I never expect to know one, who is not playing the game of politics from the time he is inaugurated until the time he finds out he can not be renominated or elected again. His secretaries are his executive officers, and therefore he has his hand on his secretaries, and this Secretary is the dominating character all through this organization.

Senator POMERENE. Some are candidates after they are out.

Senator NELSON. Your opinion is that it is not limited to the present administration?

Mr. FOWLER. I apply it to all administrations which might come into power. I do not want to limit it to this administration.

I am simply finding out how defective it is.

Senator NELSON. It would apply to any administration.

Mr. FOWLER. To any administration, because any President I have ever known began to play the game as soon as he got his feet.

Senator NELSON. I think you are right about that.

Mr. FOWLER. I have known every President to play the game, and I have known two or three Secretaries of the Treasury who thought they were going to be President.

On page 2 there is reference to 12 centers or regional reserve banks. The organism of the human body is scarcely more complicated and delicate than the organism of the credit system of the United States,

and the credit system requires a single heart or center as much as the human body requires a single heart. Any one may ask, "Can we not have more?" Yes; we have had the Siamese twins as a human monstrosity, and you can have a banking monstrosity with 12 heads and 12 hearts if you like. Your trouble will begin with their origin.

On page 21 is the provision compelling them to rediscount. This will only add to your trouble, certainly with a politically managed institution as this would be. We have our East, we have our West, we have our North, we have our South, we have our Wall Street, and we have our prairies, and every one of them is clouded with suspicions and suspicions.

I have always been in favor of a central reserve of gold; of gold, I say—a single, central reserve of gold—so that this reserve of gold could respond to the most sensitive requirements for reserves anywhere and everywhere naturally and almost automatically. I am in favor of a governmentally controlled central gold reserve, a governmentally controlled banking system.

The Aldrich scheme was, in my judgment, structurally designed to turn the control of all bank credit over to certain banking interests. This scheme has gone to the other extreme and turned our bank management over to politicians. We must avoid both of these deplorable evils, and adopt the middle course of a governmentally controlled banking system in order that the business of the country will not be shaken to its center every time we have an election. It is bad enough as it is; God help the country when your elections mean a different policy in bank administration.

Senator POMERENE. What change would you suggest in that respect?

Mr. FOWLER. I can not attempt to suggest any changes to this measure.

Senator POMERENE. But you have just suggested that it should be a governmentally controlled bank. Now, how would you make it a governmentally controlled bank?

Mr. FOWLER. You must excuse me—with all deference.

Senator POMERENE. But this is very pertinent. You have hinted at a course without suggesting what should be done.

Mr. FOWLER. Yes; but it requires a substitution, and not a suggestion in regard to this scheme at all.

Senator McLEAN. You have prepared several bills in times past?

Mr. FOWLER. I have one now. You will find it in that book.

Senator POMERENE. Do you regard it as governmental control?

Mr. FOWLER. Absolutely as governmental control.

Senator McLEAN. The bill in your book comprises that feature?

Mr. FOWLER. Exactly.

Senator POMERENE. I suggest you incorporate it in your remarks.

Senator BRISTOW. I think that would be a good plan.

Mr. FOWLER. I will if you wish.

Senator HITCHCOCK. You might send each member of the committee a copy of your book.

Mr. FOWLER. I have sent them a good many circulars and I found out they did not appreciate a good thing when they saw it. [Laughter.]

Senator BRISTOW. Every statement you have sent me I have read.

On page 22 the board is given control of the notes, so as to supervise and regulate the issue and retirement of Federal reserve notes and to prescribe the form and tenor of such notes.

Senator HITCHCOCK. Will you put a copy of your bill in the record?

Mr. FOWLER. If you desire.

Senator HITCHCOCK. This is not a bill you have introduced, but one you have prepared?

Mr. FOWLER. Yes.

Senator SHAFROTH. Is that bill you are going to put in the one founded upon the Canadian system?

Mr. FOWLER. No; it is not. I do not found anything upon the Canadian system. I only referred to that as one principle they have up there.

How can this board form any opinion whatever what the needs of currency are any more than they can form any opinion whatever whether some man is entitled to a loan 100 miles from a railroad station?

I want to tell you a little story about the First National Bank of Seattle during the panic. The gentleman who told me this story had a deposit of $10,000 in the First National and he could not get a dollar. "Why," he said, "won't you let me check?" "No," they said, "You can not check against it. We can not pay you any money." "Well," he said, "what am I going to do? I have got to go up there. I am a hay merchant here, and this is my hay time. I do not see what I can do; I want currency to go up there and buy the hay. These people do not know me, and I go around through that country and ship down the stuff I want."

Well, they could not supply him with notes, but they said they would give him cashier's checks, and he could go up there and pay them out. "Well," he said, "they do not take those." You can readily see that this fellow could not get his own $10,000, but if they had given him credit notes he could have gone up there and met the requirements of the situation.

Tell me, how could this board meet the requirements of a fellow out in Idaho somewhere that wanted to go up in the country and buy hay or eggs or anything else, when the thing comes up instantaneously at the counter of 25,000 banks every hour of every day in the year?

Senator HITCHCOCK. The bank could get it.

Mr. FOWLER. How could the bank get it? And if it did, it would have to pay 100 cents on the dollar for it. The bank might anticipate it, and say, "Maybe you will have to wait until to-morrow or next week. We may have to send down some paper, and I do not know whether they will take it, and after we have sent it down it will cost us 100 cents on the dollar, and you will get it next week. It costs six times as much as it would if we could give it to you over the counter by converting your promissory note for 60 days for this sum of money in bank credit currency."

Senator HITCHCOCK. Why could not the bank pay out cash to this man?

Mr. FOWLER. All the cash it has got on hand is reserve.

Senator HITCHCOCK. The bank can always cut into its reserve to pay a depositor.

Mr. FOWLER. If it could pay out all——

Senator POMERENE (interposing). Under this system would you have the bank give the notes to this man?

Mr. FOWLER. Certainly.

Senator POMERENE. If it did not know anything about him?

Mr. FOWLER. You do not think a bank would give money to a fellow they did not know anything about? He is their customer.

Senator POMERENE. Most assuredly. But you were pointing out the disadvantage of the proposed system as compared with the system that you have in mind. In the particular named they would both be met by the same difficulty.

Mr. FOWLER. Not at all. Suppose Senator Shafroth here were the banker, and a man comes in whom he knows quite well, but he could not go to the bank and borrow. His credit is good; there is no credit involved in it at all. He comes in and says: "I want to borrow $10,000." For the purpose of eliminating the question of credit, suppose he gives him the security.

Senator SHAFROTH. In the Seattle case you said that man had it on deposit.

Mr. FOWLER. Of course; he had it tied up. I am taking this case home, Senator. He would not lend him a dollar unless he had standing at the bank.

Senator POMERENE. I assume that is true in all these cases, and therefore I can not see the difference in that respect.

Mr. FOWLER. I will try to point it out. Suppose he came in to the Senator and said: "I want to borrow $10,000; I am going out to buy horses or chickens." "All right," the Senator says, "I will lend you $10,000." He puts it to his credit so he can check it out. He comes back in the afternoon and says, "I want all of it in currency." Suppose the bank is down to its reserve. They say, "I can not let you have the currency; you can check it out, but I can not give it to you. I will have to send in $10,000 worth of paper and sell it." And so he parts with part of the value of the currency he gets—and the paper is drawing 6 per cent—and the currency is issued out to him, if he bought it under this bill. But if he could do what they do in Canada, and what they were doing all over the United States in many States before the war, he would take his note for $10,000 and give him his notes for $10,000 in the denominations he wanted.

Do you know they did that for 140 years in Scotland without a single dollar of deposit, the banks simply trading their notes to the people for their notes? They did not have such a thing as deposits subject to check.

Senator SHAFROTH. Nor reserve, either?

Mr. FOWLER. Oh, of course, the banks had to take care of their banking.

Now, let me point out the difference. When he took his paper and discounted it with the Federal reserve board he paid par for it, and he paid 6 per cent, and he lost his paper. But when he delivered the credit-currency notes to the man all he did was to agree to reserve against it the 15 per cent, which would be 6 per cent on $1,500, or $90.

Senator POMERENE. You are assuming, of course, that when the bank issues those notes they have the proper amount of gold reserve back of them?

Mr. FOWLER. He would not issue the notes unless he had it. Now, let us follow that right up. When he takes the man's note and places it to his credit he has got $1,500 there or he would not let him check against it. It would be contrary to law to let him do it, would it not?

Senator POMERENE. Ordinarily.

Mr. FOWLER. Now, if he has got the reserve against the man's deposit of $1,500, then he has all that is necessary to get the $10,000 of currency. The bank did not change its reserve, as you know, so it has not increased its debt 1 cent. It did not change the situation to the extent of 1 cent in any respect. It simply changes the nature of his debt from a check book that he carries up in the country to notes in the man's pocket.

Senator NELSON. Then the man comes into the bank and gives his notes and gets in exchange the notes of the bank?

Mr. FOWLER. Certainly.

Senator NELSON. It is a swapping of notes?

Mr. FOWLER. Right, sir.

Senator NELSON. And the man who gets the notes of the bank—his guaranty is the reserve?

Mr. FOWLER. His guaranty is the reserve.

Senator NELSON. And the general assets of the bank?

Mr. FOWLER. That is right; and the insurance fund.

Senator SHAFROTH. What reserve do you think there ought to be kept in a case of that kind?

Mr. FOWLER. The same against your deposits as against your notes.

Senator SHAFROTH. Fifteen or twenty per cent?

Mr. FOWLER. Fifteen in the country.

Senator POMERENE. To what extent would you allow the bank to issue those notes?

Mr. FOWLER. I would make a provision that they could issue an amount equal to the capital and another provision that they could issue another amount to equal that, with permission.

Senator NELSON. Would you allow them to issue the amount of their capital and surplus?

Mr. FOWLER. I would not have it relate to the surplus at all, and, so far as their being sound is concerned, I would make no limit on that at all, because they are not going to issue notes unless they take something in return for them, and the notes are a first lien on their assets and their cash by a 5 per cent fund, and the banks in the country might want to issue 200 per cent down in Texas or out in South Dakota and in New York they would not want but 25 per cent of their capital. In other words, I would give to the people of the United States in every locality that form of bank credit that the needs require.

There is no more danger in a bank having out $500,000 of notes than there is in having out $500,000 of deposits; not a bit. They only owe $500,000. Why, under the Suffolk system before the war for 25 years the average note was $45,000,000 and the average deposits only $41,000,000. Take the people of France to-day. They do not use the deposit system at all in France. The Bank of France issues over a billion dollars of notes. It has only $120,000,000 subject to

check; but you cross over the channel and the Bank of England does not issue a single note.

Senator POMERENE. Would you have the banks carry their entire reserve in their vaults or have a reserve bank?

Mr. FOWLER. Precisely as they do it to-day——

Senator POMERENE (interposing). You would have reserve banks and central reserve banks just as they have to-day?

Mr. FOWLER. I would let them carry on their business with their correspondents just as they do now, and carry their reserves just as they do now, and have a central reserve in the United States amounting to a billion and a quarter at least, and that amount always increasing as the banking interests of the United States increase.

Senator NELSON. The integrity of your whole plan rests upon the care of the bank in extending credits?

Mr. FOWLER. All your banking to-day depends upon that.

Senator NELSON. That is, the banker must discriminate whose notes he takes?

Mr. FOWLER. Just as he does now.

Senator NELSON. And if he is careless and takes more notes or gives more credit than he ought to that will of itself break down the system?

Mr. FOWLER. It would not break this system down.

Senator NELSON. It would break it to that extent?

Mr. FOWLER. It would break that bank but not the rest.

Senator NELSON. But as long as the banks exercised discrimination——

Mr. FOWLER (interposing). As well as they have exercised it for the last 50 years——

Senator NELSON (interposing). As long as the banks exercised discrimination in the notes they took the volume of notes would follow the business wants of the country?

Mr. FOWLER. Absolutely; to a cent.

Senator POMERENE. Would not the directors of the regional reserve bank be a check upon the system which you have described here if it were superimposed upon that?

Mr. FOWLER. Why, the regional reserve system is an utterly foreign proposal, brought over from Germany and utterly out of harmony with American conditions. If you take the American clearing houses at every zone center in the United States and coordinate them by bringing their reserves together, you do not want any central bank; you simply want to fit the conditions that exist to-day. You could do this and no bank in the United States would ever know it was being done, and you would have a great central reserve of a billion and a quarter, and it would simply be what you have developed without any law whatever. The whole history of Anglo-Saxon civilization is nothing more than the enactment of the habits and practices of the Anglo-Saxon countries.

Senator SHAFROTH. How would you get that gold reserve of a billion and a quarter?

Mr. FOWLER. By the contribution of all the banks in the United States.

Senator SHAFROTH. Would you have the banks retain in their own vaults gold to meet the demand also?

Mr. FOWLER. I would, as quickly as I could, pay off the United States notes and get them out of the way. And I would pay those off out of a tax on the notes the banks circulated.

Senator SHAFROTH. Now, each bank would keep gold to redeem its notes and also to pay checks.

Mr. FOWLER. Those things are never paid at their face; you pay the balances on clearings.

Senator SHAFROTH. But you would not have any other money.

Mr. FOWLER. I would have what I have got. I would not disturb our present situation, but in the course of 15 years I would have paid off the United States notes and have nothing but gold. And the silver—all our silver to-day is nothing but pin money. We should keep our silver certificates down to ones and twos and fives, distributed so it could not in any way become a demand.

Senator SHAFROTH. At the end of the time, if bank credits keep on the way they have gone—they are now over $20,000,000,000——

Mr. FOWLER. Oh, no.

Senator SHAFROTH. Yes, sir; bank credits are over $20,000,000,000 at the present time. If you take that and have a 15 per cent reserve, that would take $3,000,000,000 right there, and if you were to wait until the end of 15 years the chances are you would require $6,000,000,000.

Mr. FOWLER. I am not waiting at all. I would do this in a year.

Senator SHAFROTH. Then you would retire national-bank notes in a year, too?

Mr. FOWLER. I would convert them into credit notes, too. I would take this country precisely where it is to-day, take the gold that is in the country to-day, and I would let the State banks that have 7 per cent reserve increase their reserves in this way up to 17 per cent. I would let them put out $500,000,000 of their notes in exchange for $500,000,000 of gold certificates.

And what effect would that have on the banking situation in this country? It would increase your present bank liabilities about 2 per cent and it would increase your reserves about 30 per cent. That is pretty good banking, isn't it? And all they would have to do would be for a State bank to become a national bank. It would not cost it a cent, because it would be putting out its debt. And you would increase the State banks' reserves from 7 to 17 per cent, and you would also increase the debts of the banks of the United States 2 per cent, and you would increase the reserves of the United States 33 per cent.

Senator HITCHCOCK. The hour for adjournment has about arrived.

Mr. FOWLER. I have just about finished. I want to make a comment or two more.

Senator HITCHCOCK. You are leaving to-night, are you, Mr. Fowler?

Mr. FOWLER. Yes. I want to call your attention, gentlemen, to the fact that if you have the right kind of banking system there is absolutely no difference in the perfect adaptation of your note system to the demands of trade and your credit system. They work harmoniously and instantaneously. And the use of currency, as I remarked some time ago, should be just as cheap as the use of bank credits ar not as dear as gold. What earthly use, gentlemen, is it to be walk

around the streets with gold certificates in your pockets? It would far better be in the banks as reserves and the bank credit in your pocket. To have gold certificates out in the corn fields and wheat fields and cotton fields is literally and absolutely useless, because a bank credit could do the same thing. You might just as well take six automobiles to come down here to your office in the morning as to do the current business of this country with gold certificates instead of bank credit.

Senator HITCHCOCK. Because bank credits are six times the amount?

Mr. FOWLER. Because the gold costs six times as much.

Senator HITCHCOCK. That is, on an equal amount of gold you could have six times that amount of bank credit?

Senator SHAFROTH. Mr. Forgan said eight.

Mr. FOWLER. The fact is, the whole scheme of the note issue is based upon a false theory, and that is that they are some kind of money, which they are not. There is no money in the United States except these four pieces of gold money. All the rest of these things are nothing but debts, because the gold is the only thing that is its own redeemer.

Senator REED. Would you have nothing but gold for reserves?

Mr. FOWLER. I should like to have; but you have to treat the situation as it is until, by taxing the bank notes, you convert the United States notes into gold certificates by putting gold in there until the $346,000,000 is all covered.

Senator REED. Ultimately your proposition is that we should have nothing but gold or gold certificates in the bank?

Mr. FOWLER. Absolutely.

Senator HITCHCOCK. You have just said the notes provided for in this bill are to be used as reserves.

Mr. FOWLER. In this bill here?

Senator HITCHCOCK. Yes. I asked you, and you said they were to be used.

Mr. FOWLER. It don't say—it does not limit them, and I know the State banks would use them, and therefore I treat them that way.

Senator HITCHCOCK. When you made your statement just now—that they were to be used by the national banks——

Mr. FOWLER. I did not say "national." I said "banks."

Senator HITCHCOCK. You did not include national banks?

Mr. FOWLER. The bill does not say you shall not. I call your attention to the fact that these obligations of the United States, from Senator Owen's point of view—I want to read to you (I do not know whether you gentlemen have seen this or not) the following from page 564 of the North American Review. Your chairman, Mr. Owen, uses this language. This was very refreshing to me, because it sounded a good deal like some ancient history I read a long time ago when I began to study this question. His words are these—Senator, I want you to hear this, because I think you have this fever a little yourself.

Senator HITCHCOCK. What is this?

Mr. FOWLER. This is Senator Owen's article in the North American Review. He uses this language:

It is my personal opinion that these notes should be legal-tender notes, in order to give them the fullest possible credit to enable them to be used as reserves by member banks, but not by the Federal reserve banks.

The notes of the Bank of England, of the Bank of France, and of the Bank of Germany are legal-tender notes, although they are private institutions. It is of more importance that the Federal reserve notes should be legal tender, for the reason that they should serve every purpose of actual lawful money. It is obvious that such notes, being limited in volume to actual commercial needs and issued against commercial bills based on actual commercial transactions and having fixed limited maturity, there is no danger whatever of undue or unwise expansion. They will automatically contract with the payment of such notes on their maturity and immediately that the commercial exigency passes.

Now, do you know in 1717 when John Law made the proposal he did, he had 33 per cent against those notes?

Senator NELSON. In gold?

Mr. FOWLER. In mixed coin, and it just lasted about a year. Of course we have a little better collateral control now than we had then, but the result would be the same. The same thing happened in 1862 when we first issued the Government note. We were trying to make something out of nothing, and the demand was then to make them legal tender, and of course they made them legal tender. Now, here is the chairman of this committee advocating that they should be now legal tender, and the result of that would be an apprehension all over the world with regard to the financial situation of the United States.

Senator SHAFROTH. Does it not do it as to the greenbacks they have now?

Mr. FOWLER. It did in 1890 until we pretty near went over the dam.

Senator SHAFROTH. No; it was caused by a deficit in the Treasury. That was what caused that great uproar.

Mr. FOWLER. What did you have in 1863 when you made the greenbacks legal tender?

Senator SHAFROTH. The fact we were in war.

Mr. FOWLER. The very day they made legal-tender paper, the argument was made in the House and Senate that they would not depreciate any. The next day they went to 97, and in a year they went down to 35 cents on the dollar.

Senator SHAFROTH. Those that were made full legal tender for the payment of import dues and interest on the public debt, the $60,000,000 never went to a discount, did they?

Mr. FOWLER. I do not know.

Senator SHAFROTH. No; they never did.

Senator NELSON. There was a small issue.

Senator SHAFROTH. Yes: $60,000,000, and they were payable on demand in gold.

Mr. FOWLER. And they were afterwards paid, I think, by Chase.

Senator NELSON. I remember this act. I was stationed up here by the Relay House as a soldier, and it was my first pay day, and in that first pay I got one of those $10 notes, and I sent it home.

Senator REED. I was going to ask you, Senator, if you ever got any more?

Senator NELSON. Not of that kind. Afterwards I got this other kind. But I do not like to hear you talk about those old greenbacks.

Mr. FOWLER. I know you do not, Senator.

Senator NELSON. Those greenbacks were the means of carrying us through the war.

Mr. FOWLER. I agree with you.

Senator NELSON. And every soldier in the Army was a creditor ‹ the United States. We were not only willing to carry muskets, b

we were willing to loan credit to the United States to the extent of taking those greenbacks, and we may get into another war where we need it, and we want to get into a position where we will not have to use them.

Senator WEEKS. Would you not reserve the right in here to put out Treasury notes, or greenbacks, or whatever you call them, in a time of great emergency rather than in normal times?

Mr. FOWLER. If you will permit me, I heard myself repeated here in terms so much better than I ever wrote myself that I want to read you right on that point what Paul Warburgh wrote in the North American Review. I think I had reached the question of the system used in France by Napoleon, who was as great a financier as he was a soldier. He expresses it so well here in this recent article. He says:

> History has shown that the Banque de France survived when the Government of France went to pieces. It remained unchanged whether France became an empire, commune, or republic. History has shown that by keeping the central banks and the Governments separate entities they become mutual supports. The Government is the customer of a central bank; at times its largest depositor, at times its heaviest borrower. The Government's credit strengthens the central bank, the central bank strengthens the credit and the power of the Government. Where Government credit and bank credit have been mixed up the consequence has been to weaken both. Are the United States under the presidency of a man of science going to throw this universal experience to the winds?

Senator NELSON. Do you not know, Mr. Fowler, that the Bank of England, as a result of the conduct of the Napoleonic war, through the stress of that war, and the great liabilities and debt they incurred, was allowed to suspend specie payment?

Mr. FOWLER. They had to. The Bank of England did not exact it.

Senator NELSON. Oh, yes; they did.

Mr. FOWLER. That is right.

Senator HITCHCOCK. The motion is made that we are now 10 minutes past our hour of adjournment, and we want to know if you can stay over.

Mr. FOWLER. I have got to be in New York to-morrow.

Senator REED. I very seldom get any real information out of the glittering generalities of a paper, and I like to ask some questions, and if you can stay to-morrow I shall feel obliged to you, for I think the committee ought to hear you through.

Mr. FOWLER. I have just got about 15 or 20 words here to finish this.

Senator REED. Without any discourtesy to you, I am obliged to withdraw, because I made an engagement for this hour in my office, and I will have to go. So I will read what you have to say to-morrow.

Mr. FOWLER. That is all right, Senator.

I regard the political management of this bill most pernicious, detrimental, destructive, and dangerous. I regard the 12-headed project impractical and destined to failure.

Senator WEEKS. Do you know any reason that would apply to 12 that would not apply to 1, 2, or 4?

Mr. FOWLER. I would like to continue this, and then I will come back to that.

I am absolutely confident that to make these notes Government obligations will be fatal. To confuse our bank-note issue with our central gold reserve must result in driving gold out of the country and lead ultimately to complete disaster. While driving, in a blind way, at some desirable ends the bill as passed by the House is economically and fundamentally the worst proposal that has received serious consideration within my recollection in this country [laughter], and if allowed to be dispassionately considered by the country will be utterly repudiated within a year and men will wonder how they could ever have thought well of it.

Senator HITCHCOCK. I want to commend you for your moderation of statement.

Mr. FOWLER. I think I did say that the Aldrich scheme was the worst, at that time. [Laughter.] But I think this worse than that. [Laughter.]

Senator NELSON. You did not approve of the Aldrich scheme?

Mr. FOWLER. No, sir. We have made some progress and are making more progress now than at any time in 20 years, but we are far from the point of intelligence where action is justified. Now, Senator, I will answer your question.

Senator WEEKS. What I want to ask you, Mr. Fowler, is this: Do you know of any reason for advocating 12 reserve banks which will not apply with equal force to 6, 4, 2, or 1, or any other number?

Mr. FOWLER. Ask me that question again, please.

Senator WEEKS. Do you know of any reason for the establishing of 12 reserve banks which will not apply with equal force to any other number less than 12, down to 1?

Mr. FOWLER. Well, I do not think that any general or central institution should have but one organ, any more than you have to have but one heart in your body.

Senator WEEKS. Do you know of any good argument that will apply to any number greater than one that does not apply with equal force or greater force to one?

Senator HITCHCOCK. I think he wants to ask whether you do not think the central bank has all the virtues and none of the vices of the 12 reserve banks.

Mr. FOWLER. You are asking it in the negative form?

Senator WEEKS. Yes.

Mr. FOWLER. I do not see any reason for it, and there are many strong reasons for a central gold reserve. I think it is absolutely essential to this country to protect its gold and to protect the commerce of this country. I do not believe that 12 of these branches or 12 individual reserve institutions have any of the virtues of a single central gold reserve.

(Thereupon, at 5.45 o'clock p. m., the committee adjourned until to-morrow, Wednesday, October 8, 1913, at 11 o'clock a. m.)

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[redacted]